



Alternative investment instruments-risk-free: A space for growth

Shaik Shanawaz Ali¹, Dr. NC Rajyalakshmi²

¹ Department of Education Finance, Siva Sivani Institute of Management, Hyderabad, Telangana, India

² Professor, Department of Education Finance, Siva Sivani Institute of Management, Hyderabad, Telangana, India

Abstract

This study examines Equity-Linked Savings Schemes (ELSS) as an alternative investment instrument, focusing on their dual benefits of tax savings and wealth creation. ELSS funds invest primarily in equities and have a mandatory three-year lock-in period, promoting disciplined investing. Compared to traditional tax-saving options like Fixed Deposits (FDs), Public Provident Fund (PPF), and National Savings Certificate (NSC), ELSS offers higher returns, making it an attractive choice for long-term investors.

The research analyzes the performance of selected ELSS funds against the Nifty 50 Index using historical data, annual returns, and Compound Annual Growth Rate (CAGR) over five years. Findings indicate that ELSS funds consistently outperform Nifty 50 in CAGR, proving their growth potential despite market fluctuations. Key factors influencing ELSS performance include fund management strategies, sectoral allocation, and market conditions.

The study highlights the impact of the lock-in period in fostering long-term investment discipline, which helps mitigate impulsive withdrawals and allows for compounding. Additionally, ELSS benefits from professional fund management, ensuring portfolio diversification and risk mitigation. While ELSS carries higher market risks compared to fixed-income instruments, it remains a compelling option for investors with a moderate to high-risk appetite.

ELSS funds offer a balanced approach to tax efficiency and capital appreciation. Their ability to outperform traditional tax-saving instruments makes them a valuable component of a diversified portfolio, suitable for investors seeking long-term growth. Future research could further explore market trends and investor behavior in ELSS investments.

Keywords: Alternative investment instruments, risk-free investments, Equity-Linked Savings Schemes (ELSS), tax-saving investments, wealth creation

Introduction

Alternative investment instruments like Mutual Funds, Fixed Deposits (FDs), Gold, and Bonds provide various options for investors seeking long-term growth with different levels of risk. Mutual Funds combine investments for professional management across stocks, bonds, and other securities, while FDs offer low-risk, fixed returns but often provide lower earnings than market-linked options. Gold serves as a protection against inflation, offering stability but facing price fluctuations, and Bonds provide steady, low-risk returns through fixed-income investments. Among mutual funds, Equity-Linked Savings Schemes (ELSS) stand out by offering tax benefits under Section 80C along with growth potential through equity investments. ELSS funds include a mandatory three-year lock-in period, encouraging disciplined investing and reducing market volatility. Their diversified portfolios, managed by experienced professionals, lower the risk of heavy losses and improve long-term returns. While all investments involve some risk, ELSS is considered relatively safer due to its structured approach and tax-saving features. This study compares ELSS performance with benchmarks like Nifty 50 to evaluate its potential as a safe growth option. The Nifty 50 Index, which includes top companies from 13 sectors, is used to measure ELSS success in delivering returns and maintaining stability.

Objective of the study

1. To analyze the structure and types of mutual funds including Fixed Deposits (FDs) and Equity-Linked Savings Schemes (ELSS) and their role in investment planning.

2. To evaluate the benefits and limitations of ELSS funds while emphasizing their tax-saving advantages under Section 80C of the Income Tax Act.
3. To compare the performance of ELSS funds over a three-to-five-year period against the Nifty 50 Index, assessing their risk-return profile.
4. To identify sectoral trends and active fund management strategies that influence ELSS performance and investor returns.
5. To examine the impact of the three-year lock-in period on investor discipline, wealth creation, and market stability.

Scope of the study:

1. The research analyzes the returns of selected ELSS funds over a five-year period, comparing them with the Nifty 50 Index to assess their competitiveness.
2. The study examines the risk-adjusted returns of ELSS funds, considering market fluctuations, sectoral allocations, and fund management strategies.
3. The research explores how the mandatory three-year lock-in period influences investor behavior, long-term wealth creation, and market stability.
4. The study assesses ELSS as a suitable investment option for different risk profiles and tracks emerging trends in mutual fund investments.

Research Methodology

Sources: Mutual Fund Reports and Disclosures, Financial Market Data, Investment and Market Analysis Websites (Moneycontrol, Value Research, Morningstar, and Groww).

Research Design

This study employs a descriptive and comparative research design to analyze the historical performance of ELSS funds against the Nifty 50 Index. It integrates quantitative and qualitative methods, focusing on risk-adjusted returns and investment trends. The comparative analysis highlights differences between ELSS funds and the benchmark index, while fund-specific and sectoral analysis examines market trends and active management strategies. This approach provides insights into ELSS as a viable investment option, assessing its performance, risk exposure, and long-term growth potential, thereby justifying its role in a diversified portfolio.

Data Collection

This study relies on secondary data sources to ensure accuracy and comprehensiveness. Key sources include

annual reports, performance fact sheets, and mutual fund disclosures from selected companies. Data on ELSS fund returns is gathered from mutual fund websites, AMFI, and financial databases, while Nifty 50 performance data is sourced from NSE India and research platforms. Additional insights are drawn from economic journals, white papers, and SEBI reports on compliance and governance. The diverse and credible sources enhance the reliability of findings, ensuring well-founded conclusions on ELSS fund performance and investment viability.

Statistical Tools:

Average Annual Returns, Compound Annual Growth Rate (CAGR), Performance Attribution Analysis, Graphical Analysis.

Data interpretation and analysis

Table 1: Annual Returns of ELSS Mutual Funds (2019-20 to 2023-24) and 5-Year CAGR

	2019-20	2020-21	2021-22	2022-23	2023-24	CAGR
	(%)	(%)	(%)	(%)	(%)	5 yrs
Invesco India ELSS Tax Saver Fund - Direct Plan - Growth	10.83	20.41	32.42	-6.45	31.78	17.80%
Motilal Oswal ELSS Tax Saver Fund - Direct Plan -Growth	14.64	9.74	31.26	3.03	37.88	19.31%
Parag Parikh ELSS Tax Saver Fund -Direct Plan - Growth	8.72	29.74	35.99	6.58	28.46	21.90%
SBI Long Term Advantage Fund - Series I - Direct Plan - Growth	12.91	24.47	44.75	4.04	26.55	22.54%
ICICI Prudential ELSS Tax Saver Fund - Direct Plan - Growth	9.2	13.92	33.02	3.06	23.96	16.63%

Table 2: Annual Returns of NIFTY 50 Index (2019-20 to 2023-24) and 5-Year CAGR

	2019-20	2020-21	2021-22	2022-23	2023-24	CAGR
	(%)	(%)	(%)	(%)	(%)	5 yrs
Nifty 50	12.02	14.9	24.12	4.32	19.42	14.89%

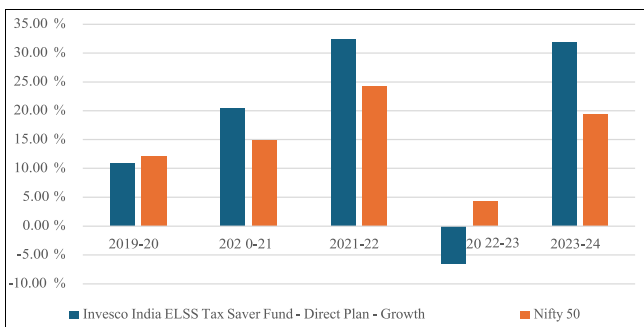


Chart 1: Invesco India ELSS Tax Saver Fund - Direct Plan – Growth (Fig 3)

Performance by Year: 2019–20: Both the index and the fund yielded returns with the Nifty 50 just slightly better.

2020–21: ELSS fund had a better return than Nifty 50, and both returns were impressive

2021–2022: The Nifty 50 gave a very good return; the ELSS fund, too, sustained its good return. Both were down in 2022–2023 but the ELSS fund return was more negative.

2023–2024: The ELSS fund has been seen to perform better than the Nifty 50, with a strong recovery.

Absolute Performance

The Invesco India ELSS Tax Saver Fund gives an average annual return of 19.8%, which is higher than that of the

Nifty 50, which is 16.54%.

Nifty 50 has shown more stable performance with no negative years.

Interpretation

Outperforming the benchmark CAGR of 14.89% for NIFTY 50, this Invesco India ELSS Tax Saver fund has delivered a laudable 5-year CAGR of 17.80%. This fund has demonstrated resilience and strong returns over time. While it has been witnessing the occasional volatility, in times of growth, like during 2019–20, it had grown at 10.83%, and the most recent growth was an eye-catching 20.41% during 2020–21. The same later produced an even better return of 32.42% during 2021–22. However, the fund went through a steep decline in 2022–2023 with a return of -6.45% indicating market troubles that could have resulted from hikes in interest rates and uncertainty in the global economy. Despite the loss, the fund staged a fantastic recovery in 2023–2024 with a return of 31.78%, reflecting its capability to bounce back in positive market conditions. This portfolio, barring the years under review, has consistently outperformed the benchmark NIFTY 50 on an annual basis. The benchmark out-performance was possible because of the active management style of the fund which appears to focus on the emerging sectors. Overall, the performance of this fund would suggest that it is capable of riding both bull and bear markets; hence, ideal for investors who are in the quest for moderate risk and growth. Still, the negative return in the year of review is a case for the need to be mindful of the effect, to the fund, of market downturns.

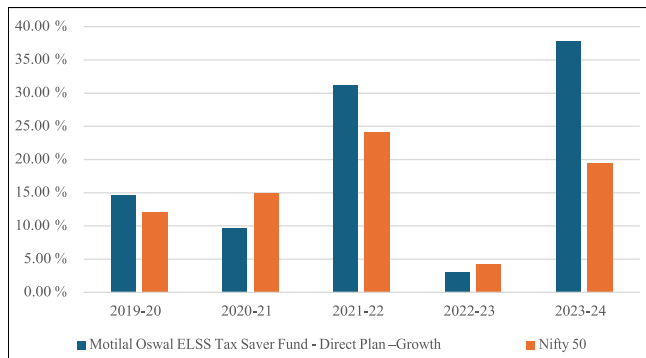


Chart 2: Motilal Oswal ELSS Tax Saver Fund - Direct Plan – Growth (Fig 4)

Interpretation

Motilal Oswal ELSS Tax Saver Fund: Has a higher average annual return of 21.48% compared to the Nifty 50's 16.54%.

Nifty 50: Shows a more consistent performance with no negative years.

The Motilal Oswal ELSS Tax Saver Fund has shown the potential for higher returns but also comes with higher volatility. The Nifty 50, while offering more stable returns, may not generate as high returns as the ELSS fund in strong market years. The choice between the two depends on your risk tolerance and investment goals.

The benchmark CAGR of 14.89% was comfortably surpassed by Motilal Oswal ELSS Tax Saver Fund, which produced a sturdy 5-year CAGR of 19.31%. While there is a bit of annual volatility, the fund's performance reflects its focus on producing strong returns over the long run. The fund has delivered 14.64% for the year ended 2019–20, fell to 9.74% in the year 2020–21 probably reflecting a rather conservative stand in the face of the risks posed by the COVID19 pandemic. However, in the year 2021–2022, it rebounded pretty well, yielding 31.26%, and in 2023–2024, it was able to sustain this trend with 37.88%.

Its ability to perform well above the NIFTY 50 most of the time gives a clear indication of how it can capitalize on the market. In sync with its goal of earning better returns, its portfolio could be biased towards growth stocks or new industries. Yet, the fund has not been totally immune to volatility; this is reflected in the muted growth of 2020-21. The aggressive investor who wants to make good returns and is ready for short-term fluctuations can go for this fund.

Parag Parikh ELSS Tax Saver Fund-Direct Plan-Growth

Interpretation

On the other hand, the mean return yearly of Parag Parikh ELSS Tax Saver Fund is more at 21.48% than the Nifty 50 of 16.54%.

High Volatility: The fund returns tend to be more volatile compared to the market index returns since it has higher volatility.

Strong Performance in Bull Markets: During the time when the market is rising, the ELSS fund tends to outperform the market.

Greater Drawdowns: The fund can incur more significant losses than the Nifty 50 during the market's downtrend.

In the light of overall considerations, the Parag Parikh ELSS Tax Saver Fund would be suitable for investors willing to accept higher levels of volatility in exchange for potentially superior returns. Before putting money into this fund one must factor in his/ her risk tolerance and goal of investment. The biggest percentage 5-year CAGR was for Parag Parikh ELSS Tax Saver Fund among the mutual funds tracked, standing at a rate of 21.90%. Such outstanding performances occur because the strategy involved, which was investment in highly volatile sectors in diverging economies by maintaining stability in bear periods. The fund started off 2019–20 at 8.72%, recovered with a growth of 29.74% in 2020–21, followed by further progression in 2021–22 at 35.99% and 2023–24 at 28.46%. Its stable outperformance against the NIFTY 50 benchmark itself further emphasizes its ability for long-term wealth generation. Its biggest plus point is the fund's comparative volatility, which keeps the money pretty low in case of a volatile market. Hence, this is very ideal for a risk-averse investor. The portfolio managed to outperform its peers and benchmark and held on well even in tough years.. This fund appeals to investors seeking stable yet high returns with a long-term investment horizon.

SBI Long Term Advantage Fund - Series I - Direct Plan Growth

Overall Performance: This long-term fund from SBI has consistently outperformed Nifty 50 over the last five years, reporting an enhanced annual return each year.

Nifty 50: The SBI Long Term Fund has outperformed the Nifty 50, though it has also given positive returns.

Risk Profile: Based on its greater return swings, the SBI Long Term Fund seems to have a higher risk profile than the Nifty 50. Its greater average returns probably justify this increased risk.

The primary investment strategy of the fund is to purchase a diversified portfolio of large- and mid-cap companies. This strategy has, over time, helped the fund outperform the market.

Management Team: SBI Mutual Fund has an experienced team of management, which has aided the success of the said fund. They have a previous history of selecting and monitoring a better stock portfolio.

Interpretation

The second best ELSS is the SBI Long Term Advantage Fund, who has shown a 5-year CAGR of 22.54%, which is much higher in comparison to NIFTY 50. The performance shows great balance with an orientation towards sustaining growth. For 2019–20, the fund's performance stood at 12.91%. It increased significantly to 24.47% for the period 2020–21. Its return of 44.75% in 2021–2022 was exceptional as it clearly proved the potential to gain the benefits from favorable market conditions. Subsequent years saw that the fund continued to yield impressive returns, which included 26.55% for 2023–2024.

The fund's sound management approach as well as the ability to reduce market risks are well exhibited by its constantly better performance compared to NIFTY 50. It is

perfect for investors looking for speedy growth and consistent outperformance above the benchmark.

ICICI Prudential ELSS Tax Saver Fund - Direct Plan – Growth

Interpretation

The ICICI Prudential Fund has been very inconsistent over the last five years and has beaten the Nifty 50 in some years but underperformed in others. The benchmark index, Nifty 50, has performed well to a large extent throughout the whole period. The ICICI Prudential ELSS Tax Saver Fund has done very well with a modest 5-year CAGR of 16.63%, bettering the benchmark CAGR marginally. Comparatively to other funds in the same space, it is less aggressive but shows stable growth. It started off the 2019–20 cycle at 9.2% and showed consistent growth from 2020–21 (13.92%), while reaching the highest peak at 33.02% during the 2021–22 cycle. The returns were fairly consistent for the 2022–2023 and 2023–2024 cycle. This fund has consistency over its peers; however, it is probably not for aggressive investors with a strong need for high returns. It is apt for conservative investors who need stable, modest profits and not aggressive expansion.

CAGR Analysis

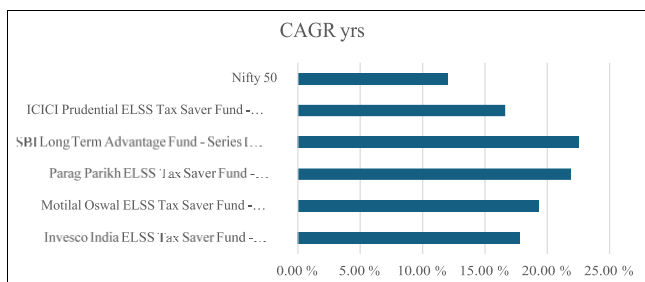


Fig 5

The CAGR analysis of the ELSS funds is quite pronounced for that benchmark, Nifty 50, and offers it huge scope for solid long-term growth. Periodic comparison of every public ELSS fund with the benchmark has proved that active management techniques, such as a more thoughtful stock selection, sectoral allocation, and a focus on higher-growth prospects, truly have their value add. The SBI Long Term Advantage Fund, in addition to a robust trend in the market, had in-depth fundamental research, and investment techniques were also very disciplined, hence achieving the Motilal Oswal ELSS Tax Saver Fund followed closely, with a balanced approach that managed to navigate risk and growth very skillfully. Even the slightly milder performers, the ICICI Prudential ELSS Tax Saver Fund and the Invesco India ELSS Tax Saver Fund, showed respectable growth rates that surpassed the benchmark for investors with moderate risk appetites. These ELSS funds depict steady positive returns on how hardy and agile they prove to be to changing conditions in the market. They open up a steady road for amassing long-term wealth, while the Nifty 50, for its passive strategy, remained behind the ELSS fund in terms of CAGR as it produced decent gains as well. High compound annual growth rates (CAGRs) of ELSS funds, therefore, justify their use for long-term investment goals, as the obligatory three-year lock-in period of ELSS funds also aligns with methodical wealth-building techniques.

Although ELSS funds provide spectacular tax-saving advantages and growth prospects, excessive dependence on one asset class increases the risks in portfolios. Diversification still constitutes an essential part of a great investing plan. To limit risks and achieve stability, investors are advised to level their portfolios by incorporating gold, fixed income instruments, and other asset classes. Periodic reviews of the performance of funds are also required to ensure that the fund is in alignment with financial goals and adjust for changes in the market.

Findings

Performance of ELSS Funds: Mutual funds provided by Equity-Linked Savings Schemes (ELSS) have consistently beaten the conventional benchmarks such as Nifty 50 index, especially over a five-year period. Leading companies such as Parag Parikh ELSS Tax Saver and SBI Long Term Advantage have managed to achieve impressive Compound Annual Growth Rates (CAGRs) of 21.90% and 22.54%, respectively. The greater average annual returns and compound annual growth rates indicate the potential of these funds for better long-term performance. Their attraction is further increased, especially for paid individuals, due to the combination of capital appreciation and tax-saving benefits under Section 80C, allowing deductions up to ₹1.5 lakh.

Risk Factors: Contrary to indices such as the Nifty 50, ELSS funds, although more volatile, provide more returns. However, funds with prudent management and portfolios that have diversified were still relatively stronger and less vulnerable to concentration risk during market shocks. Performance was mainly supported by sectoral allocation and active management of the fund, and most returns were from high growth equities and emerging sectors. It thus underlines the fact that investors making an investment in ELSS need to have a tolerance for moderate to high risks.

Comparative Analysis with Nifty 50: The fact that ELSS outperformed the Nifty 50 in terms of CAGR for all the funds under study justifies their position as competitive and growth-oriented investment options. Though they are subjected to tremendous volatility during the periods of market downturn, ELSS funds exhibited robust recovery patterns, showing their tenacity and scope for long-term development. Besides providing tax benefits, the three-year mandatory lock-in period promotes conservative investment practices by preventing impulsive withdrawal and allowing returns through compounding.

Hypothesis Testing: The study tested the following hypotheses:

- **Null Hypothesis (H₀):** ELSS fund returns are not significantly different from the Nifty 50 index.
- **Alternative Hypothesis (H₁):** ELSS fund returns are significantly different and better than the Nifty 50 index. Based on the analysis, the null hypothesis was rejected, and the alternative hypothesis was accepted, confirming that ELSS funds deliver significantly better returns than the Nifty 50 index.

Key Insights:

- ELSS funds are a very good choice for growth-oriented investors as they successfully merge tax savings with long-term wealth accumulation.

- The lock-in period's enforcement of a disciplined investment strategy fits very nicely with financial planning, and the investors can gain over time from market compounding.
- Selection of fund is essential, and main evaluation factors include past performance, risk-adjusted returns, expense ratios, and experience of the fund manager.
- ELSS funds can be used in balanced portfolios because they help diversify, thereby lowering the risk of market concentration and volatility. ELSS mutual funds combine long-term growth potential with tax efficiency, thus making them an excellent investment vehicle. Their utility for investors who want higher returns is further underlined by their steady outperformance over conventional indexes like the Nifty 50. However, being equity-oriented, they must be chosen and matched very carefully with each investor's risk tolerance. Investors can successfully achieve their dual goals of wealth building and tax savings by including ELSS funds in diversified portfolios.

ELSS funds able to generates more returns

Investments with a focus on equities: ELSS funds primarily invest in equities, which can have higher long-term returns as compared to debt or fixed-income products.

Expert Fund Administration: ELSS funds, under the administration of experienced fund managers, are consciously invested in high-growth industries and businesses.

Lock-in Time Required: The lock-in period of three years restricts rash withdrawals, and hence helps fund managers to implement long-term plans and benefit from the rallies in the market.

Diversified Portfolio: By spreading the assets across various industries and market capitalization, the risk factors will be reduced, and the returns will increase with ELSS funds.

Conclusion

A new trend has been seen lately in the popularity and tax-saving aspect of investment options that include equity-based growth and tax advantages under Section 80C of the Income Tax Act. These are called Equity-Linked Savings Schemes, or ELSS mutual funds. The distinctive features of such schemes include a three-year lock-in period, thereby ensuring disciplined investment and diluting the negative impact of transient market volatility. For ELSS funds, modern investors have both a longer wealth creation horizon and prudence with their purse strings; in short, they provide a much better return, which has a much lesser lock-in period, as compared to some traditional modes of tax-saving avenues, such as NSCs, PPFs, or FDs.

Active strategies help in achieving maximum returns as ELSS funds are governed by professional fund managers who oversee the equity-oriented structure. Their performance is regularly highlighted by metrics like the Treynor, Jensen, and Sharpe ratios, which frequently outperform more conventional benchmarks like the Nifty 50. Although market volatility is still a common risk, the diversified portfolios and sectoral exposure of ELSS funds make them a growth-oriented choice that consistently produces returns that outpace inflation. It ensures steady capital basis, thanks to which creative strategies of fund managers will boost returns without the stress of short-term redemptions. One of the major attractions of ELSS is the

way in which it balances tax efficiency and growth potential. In contrast to traditional products that offer only limited prospects for growth and fixed returns, ELSS funds allow for dynamic capital appreciation. They can potentially generate great wealth, especially for moderate to high-risk appetite investors, as reflected in their past performance. To be optimally aligned with the person's financial objectives and risk appetite, they must be properly aligned. Despite exposure to equity and related risks, ELSS funds tend to perform better in the long term compared to alternatives, especially during bull market activity. While choosing the funds, the investor must take considerations such as the risk-adjusted returns, expense ratios, and their past performance. ELSS has gained usage due to the role played by online platforms and financial advisors in simplifying transactions and comparisons among funds, especially among millennials who know how to use the internet very well. Investor education and some regulatory assistance are needed to promote the ELSS funds. Awareness campaigns will empower people to make educationally correct decisions. Also, with proper presentation, more and more people can be increased in equity markets. The factors that would increase the ELSS fund attractiveness include regulatory initiatives, which are being proactive and advancements in fund management techniques aligning with changing investor taste and market dynamics. ELSS funds provide the twin benefits of wealth creation and fiscal efficiency, thereby making them an excellent investment for tax-saving purposes. They are an excellent investment avenue for growth-oriented instruments due to their competent management, equity-based strategies, and rigorous structure during the lock-in period. ELSS funds help investors in reaching their financial goals and enjoying tax benefits by being integrated into diverse portfolios.

References

1. <https://www.moneycontrol.com/mutual-funds/performance-tracker/returns/elss.html>
2. <https://www.niftyindices.com/market-data/return-profile>
3. <https://www.motilaloswal.com/article-details/8-reasons-why-mutual-funds-are-risky-deals/5494>
4. <https://www.morningstar.in/mutual-funds/f00000pdak>
5. <https://www.valueresearchonline.com/funds/16160>
6. <https://www.amfiindia.com/research-information/other-data/mfscheme-performance-details>
7. https://www.ijharkhand.edu.in/Article_by_Faculty/Article%203%20-%20Dr.%20B.%20M.%20Singh.pdf
8. <https://groww.in/mutual-funds> (for asset allocation)
9. <https://www.icicibank.com/blogs/mutual-fund/elss-funds>