

**Alternate to**

**Bank Deposits**



# Compromise of the Reluctant Saver

Despite being low on Returns, Indian households still invest 26% of their household savings into Bank Deposits

Reason is the Bank deposits provide Safety and Liquidity

# What are the other popular options?

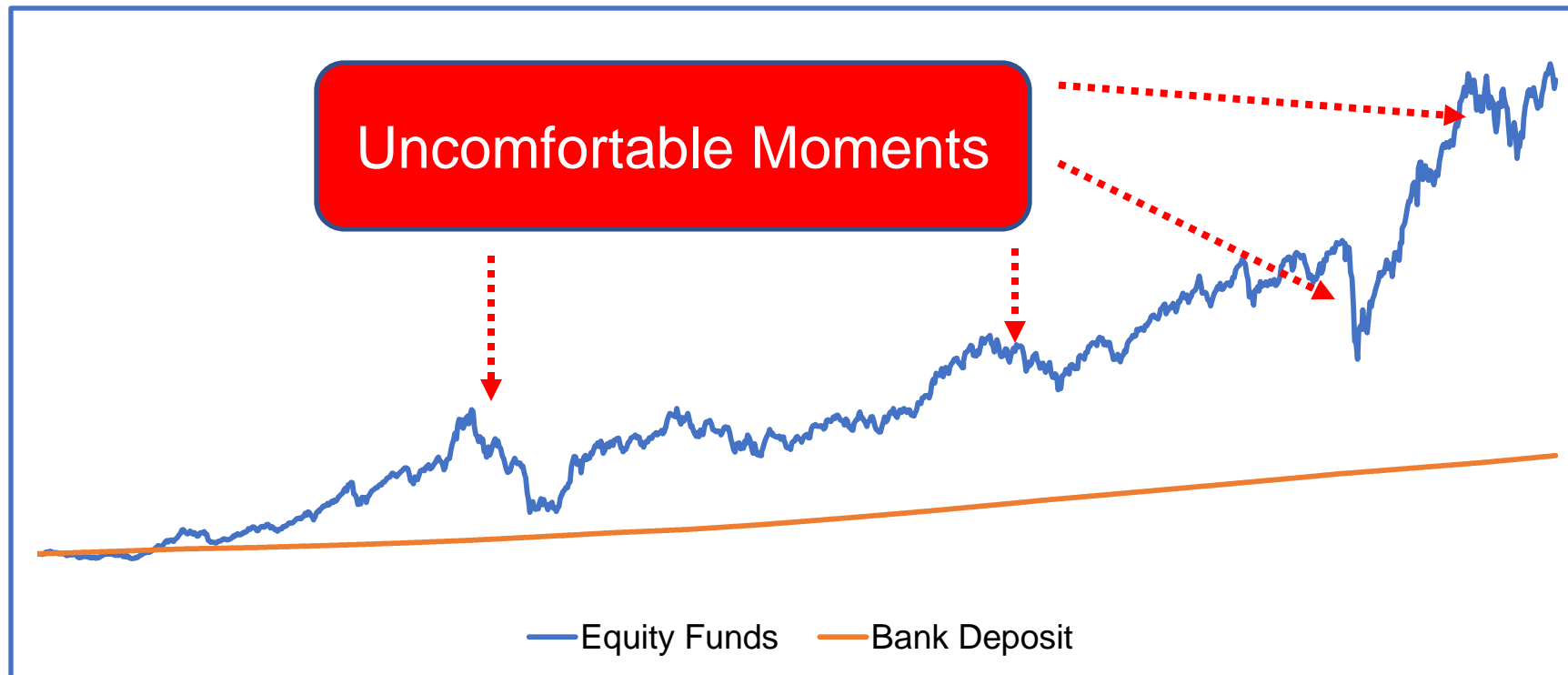
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| Options                          | Challenge  |
|----------------------------------|--|
| Top rated corporate FDs or Bonds | Returns are only slightly higher, with low liquidity and inefficient taxation. |
| Low rated corporate FDs or Bonds | High risk of default risk  |
| Direct stocks                    | Highly Volatile and risk of total capital loss                                 |

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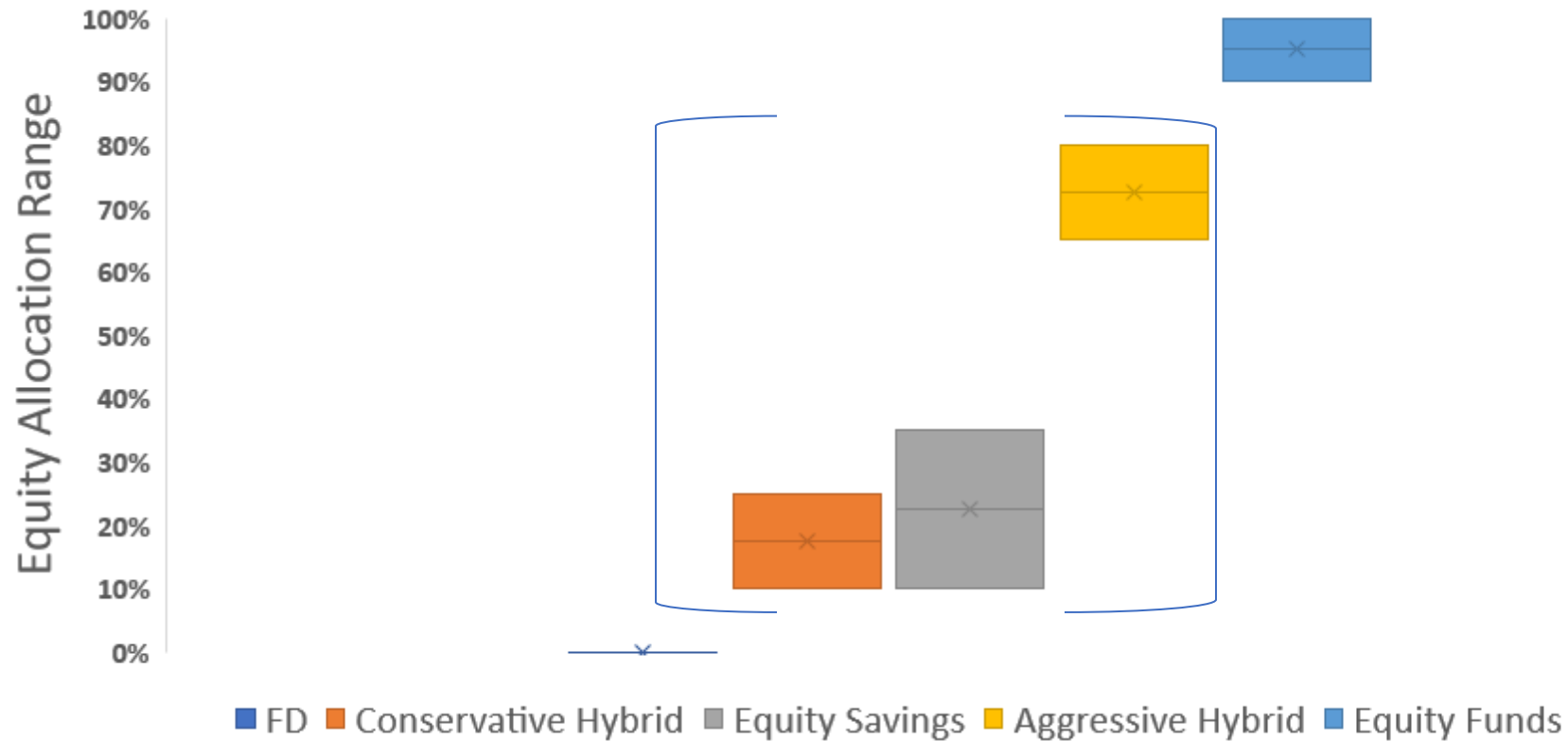
# How about Equity Mutual Funds?

Equity funds are a good long term option but are volatile in the short run

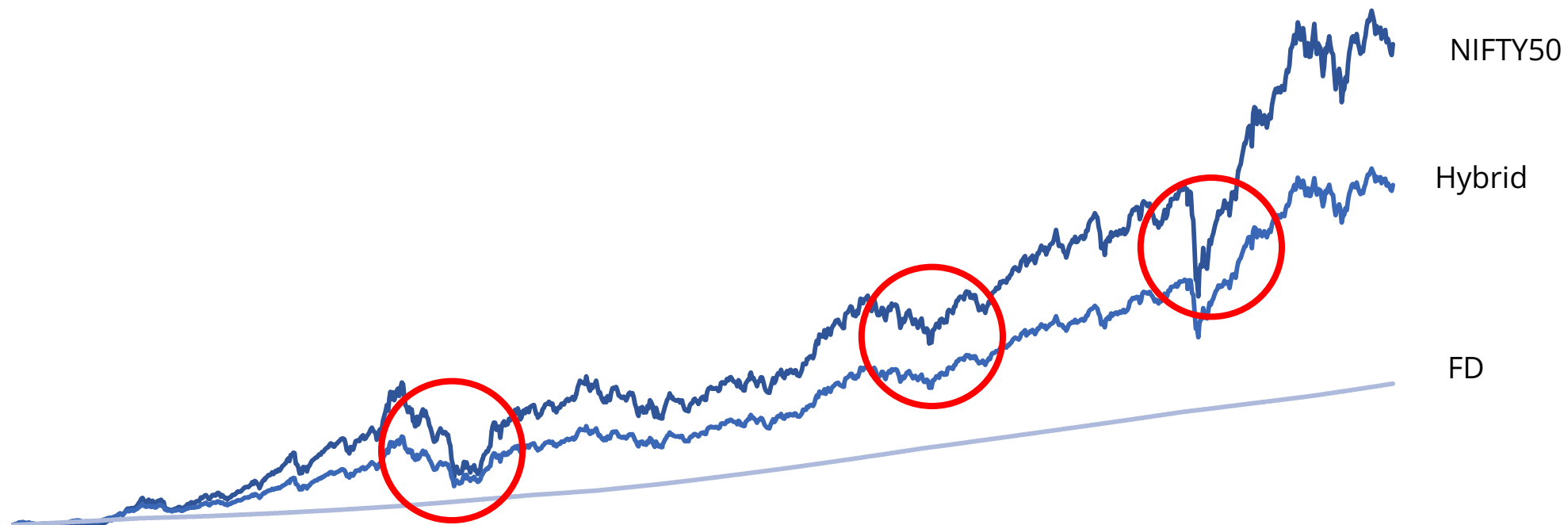


# Let's talk Hybrids – A Perfect Middle Ground

Hybrid Funds invest in both Equity and Fixed income securities in varying proportions



# Illustration of how Hybrid Funds work



**Lesser drawdowns in Hybrid as compared to Nifty 50 | Better returns than FD**

## 5 reasons to choose Hybrid Funds

# 1 – Balanced Approach

Hybrid funds provide a combination of Debt and Equity  
Debt for stability & income and Equity for long-term wealth creation





## 2 – Flexibility

Different variants like aggressive, conservative, and equity savings funds cater to different risk levels and investment goals

| Hybrid Category*    | General Asset Allocation<br>(Net Equity Long Position) |
|---------------------|--|
| Conservative Hybrid | 20% Equity   |
| Equity Savings      | 35% Equity   |
| Aggressive Hybrid   | 65% Equity   |

\* Only those hybrid categories are considered that invest in a fixed combination of Equity and Debt

## 3 – Inbuilt buy low sell high mechanism

Hybrid funds automatically book partial profits during equity market upswings and shift some debt into equity during market downturns, ensuring systematic profit booking and buying a lower level



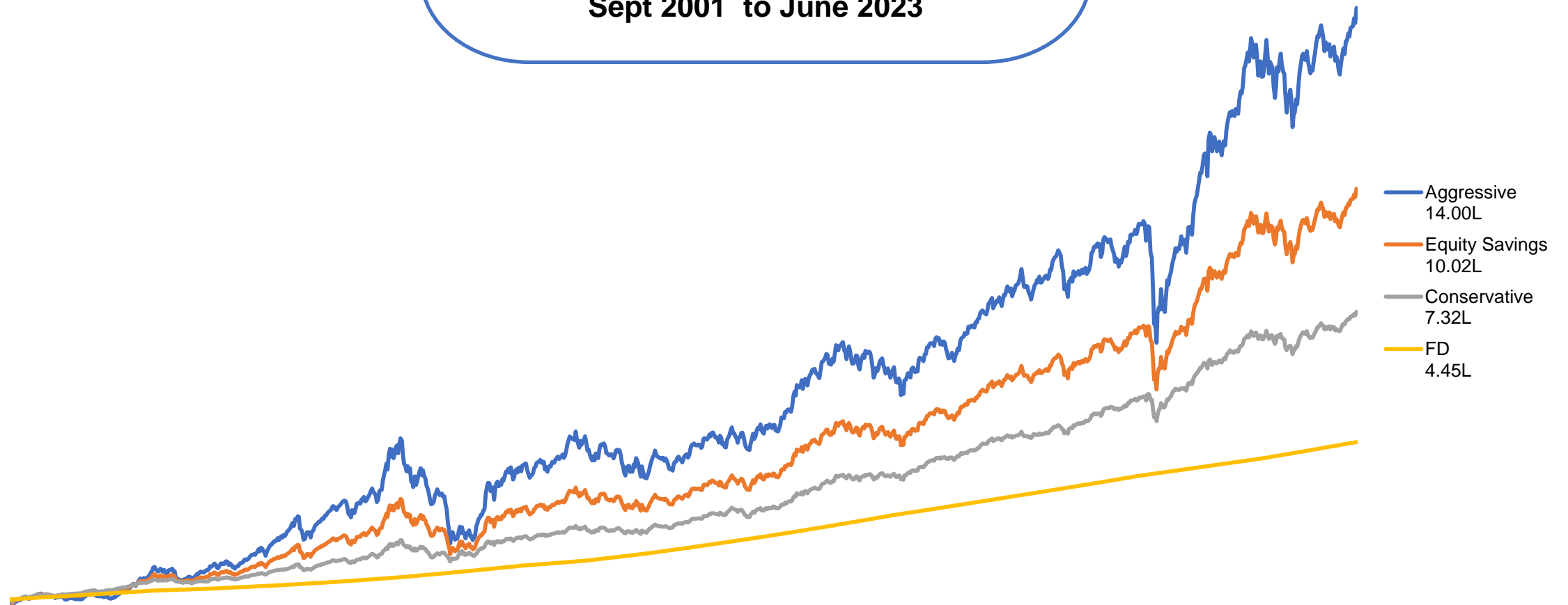
## 4 – Taxation Advantages

- Hybrid funds manage asset allocation internally, avoiding tax implications for investors when selling equity or debt to maintain the desired allocation
- FDs are taxed at slab rate whereas Equity Savings Fund / Aggressive Hybrid Funds are taxed at **10% LTCG if held for more than 1 year and 15% for less than 1 year**



# 5 - Past Performance

**Growth of 1 lakh investment from  
Sept 2001 to June 2023**



Past performance is no guarantee of future returns. Mutual Fund investments are subject to market risks, read all scheme-related documents carefully

# Research - Returns Distribution

FDs have been the go-to product for Indian households.

The purpose of this analysis is to identify alternatives that provide better risk-adjusted returns to traditional investors

# Parameters

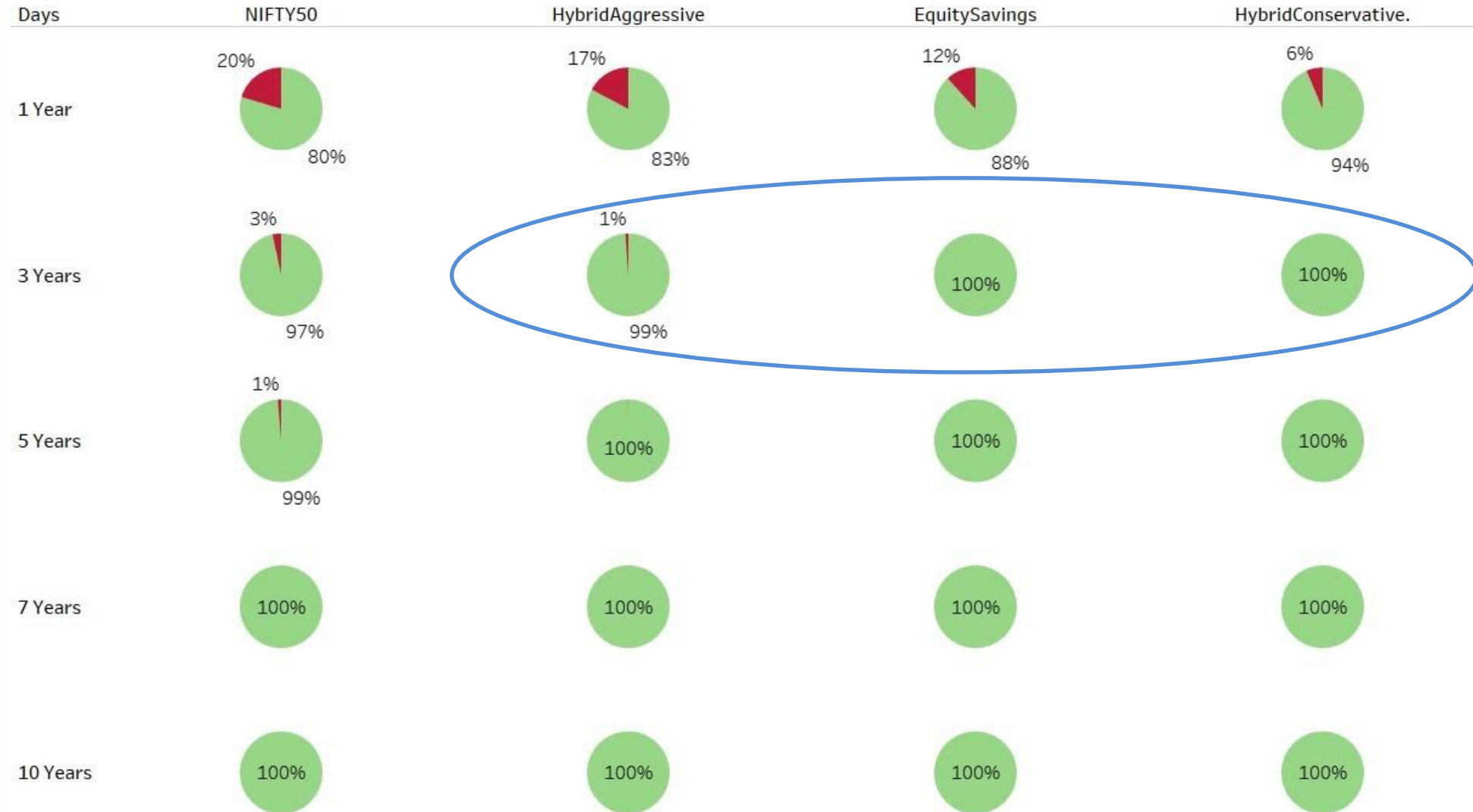
1. Period of analysis: September 2001 till June 2023
2. Rolling return calculated for 1, 3, 5, 7, and 10 Years
3. Based on the rolling return samples, the following historical returns range was analysed
  - Negative returns, Returns greater than 6%, 8%, 10%, 12%, Minimum and Maximum returns
  - Returns are Compounded Annualized
4. Indices used

| Index               | Composition                               |
|---------------------|---|
| Equity              | Nifty 50                                  |
| Aggressive Hybrid   | 65% - Nifty 50 & 35% - Nifty 5 year G-sec |
| Equity Savings      | 35% - Nifty 50 & 65% - Nifty 5 year G-sec |
| Conservative Hybrid | 15% - Nifty 50 & 85% - Nifty 5 year G-sec |

Observations

# Positive Returns %

Index < 0%





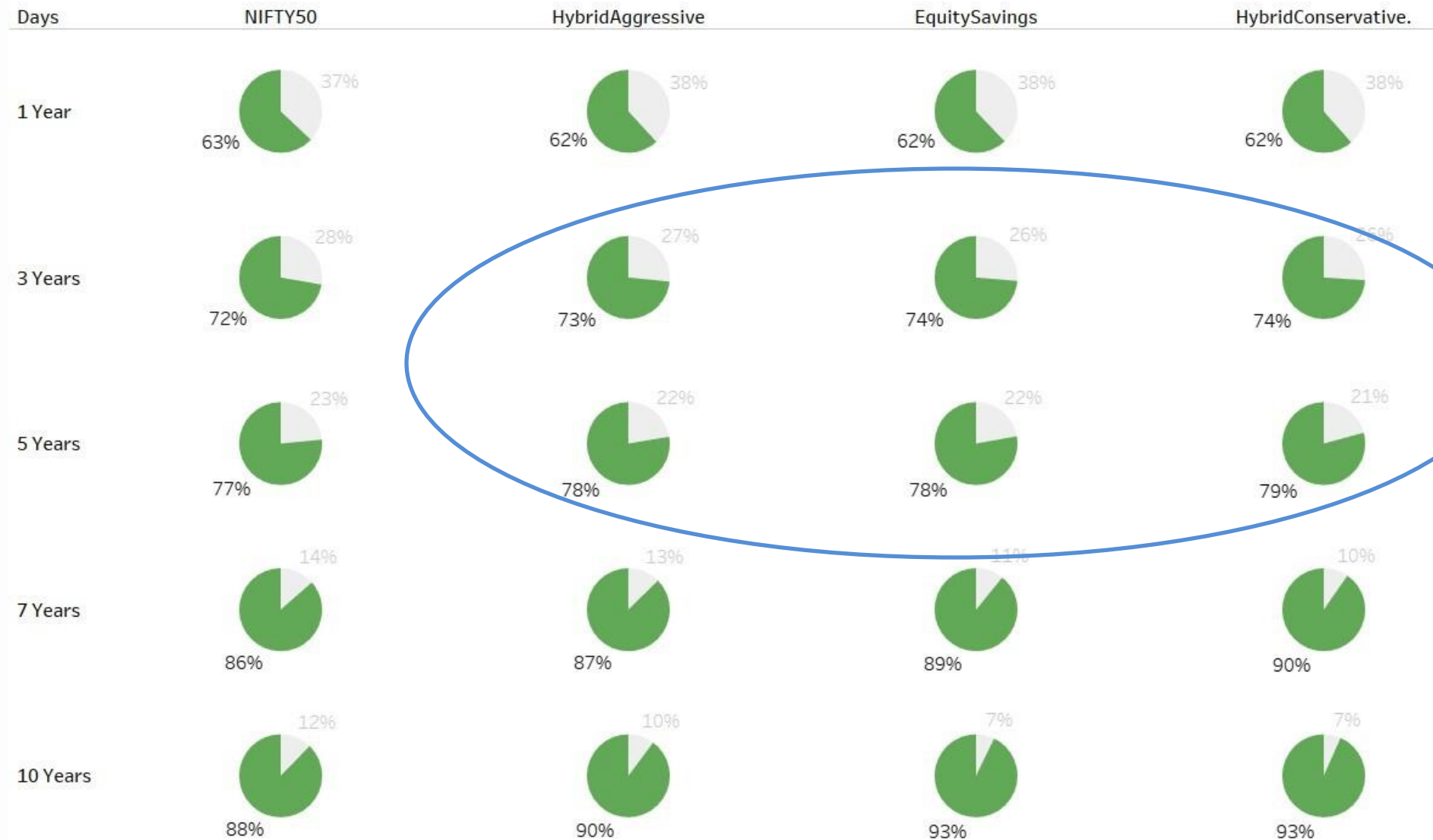
# More than 6%

Index > 6%



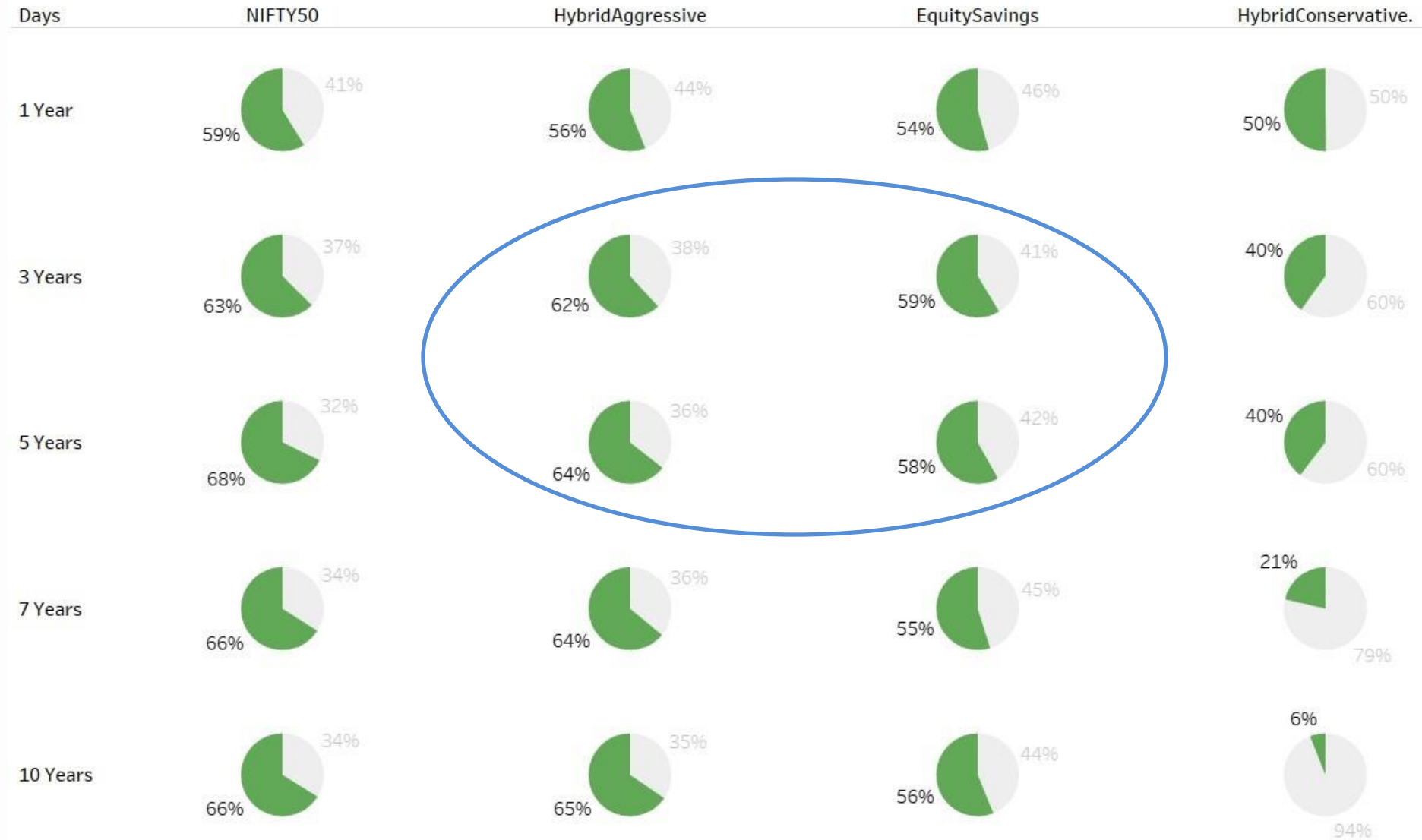
# More than 8%

Index > 8%



# More than 10%

Index > 10%



# More than 12%

Index > 12%



# Historical Rolling Return Occurrence

| Returns  | FD        | Conservative Hybrid | Equity Savings | Aggressive Hybrid |
|----------|-----------|---------------------|----------------|-------------------|
|          | 3/5 years | 3 years             | 3 years        | 5 years           |
| Positive | 100%      | 100%                | 100%           | 100%              |
| 6%+      | 100%      | 91%                 | 85%            | 88%               |
| 8%+      | 0%        | 74%                 | 74%            | 78%               |
| 10%+     | 0%        | 40%                 | 59%            | 64%               |
| 12%+     | 0%        | 14%                 | 40%            | 41%               |

# Post Tax Returns: FDs and Hybrid Funds

# Illustration – FD vs Equity Savings Fund for a 4-year horizon

|                                     | Fixed Deposits               | Equity Savings Funds         |
|-------------------------------------|------------------------------|------------------------------|
| Expected rate of return for 4 years | 7.0%                         | 8.75%                        |
| Investment Amount                   | 1,00,000                     | 1,00,000                     |
| Value after 4 years                 | 1,31,080                     | 1,39,868                     |
| Total Returns                       | 31,080                       | 39,868                       |
| Applicable Tax Rate                 | 31.2% (30% slab rate + CESS) | 10.4% (10% LTCG rate + CESS) |
| Tax payable                         | 9,697                        | 4,146                        |
| Post Tax Value                      | 1,21,383                     | 1,35,721                     |
| <b>Effective Rate of Return</b>     | <b>4.96%</b>                 | <b>7.93%</b>                 |

- Equity Savings Funds are taxed like equity funds. LTCG is applicable @ 10% on gains more than Rs.1,00,000. It has been assumed that the investor has exhausted Rs. 1,00,000 limit on gain.
- The above calculation is for illustration purposes only.

# Illustration – FD vs Aggressive Hybrid Fund for a 5-year horizon

|                                     | Fixed Deposits               | Aggressive Hybrid Funds      |
|-------------------------------------|------------------------------|------------------------------|
| Expected rate of return for 5 years | 7.0%                         | 10.0%                        |
| Investment Amount                   | 1,00,000                     | 1,00,000                     |
| Value after 5 years                 | 1,40,255                     | 1,61,015                     |
| Total Returns                       | 40,255                       | 61,051                       |
| Applicable Tax Rate                 | 31.2% (30% slab rate + CESS) | 10.4% (10% LTCG rate + CESS) |
| Tax payable                         | 12,560                       | 6,349                        |
| Post Tax Value                      | 1,27,696                     | 1,54,702                     |
| <b>Effective Rate of Return</b>     | <b>5.01%</b>                 | <b>9.12%</b>                 |

- Aggressive Hybrid Funds are taxed like equity funds. LTCG is applicable @ 10% on gains more than Rs.1,00,000. It has been assumed that the investor has exhausted Rs. 1,00,000 limit on gain.
- The above calculation is for illustration purposes only.



# FAQs

## **Are returns guaranteed?**

The returns cannot be guaranteed as they are based on the performance of the selected scheme.

## **Is there a chance of capital erosion?**

Funds are subject to market risk but the probability of capital erosion reduces materially if the investments are held for the suggested duration

## **Should I do SIP or Lumpsum?**

For current surplus Lumpsum can be utilized and to allocate from future income SIPs can be used.

THANK YOU

