AMCs LAUNCH FUNDS AS FINANCIAL YEAR COMES TO A CLOSE

Pick hybrid funds now for tax efficiency

Indexation plus special tax rate make these better than debt funds

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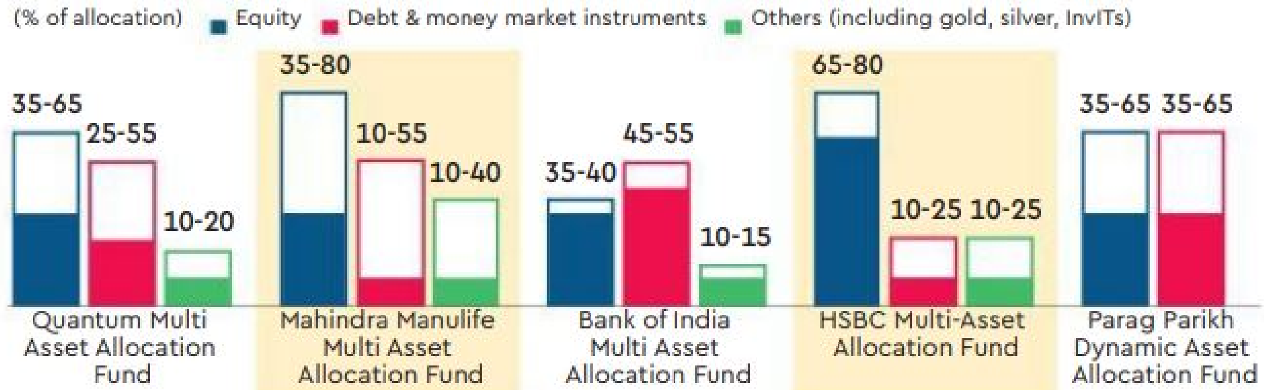
INDIVIDUALS SHOULD CONSIDER investing in hybrid funds now for capital appreciation as well as lower tax outgo. The tax efficiency from indexation benefits as well as the 20% special tax rate boosts returns and makes these funds an appealing option for those seeking a blend of stability and growth potential.

Asset management companies have launched a host of hybrid funds this month for investors to get the indexation benefit as the financial year comes to a close. As these funds put at least 35% into stocks, they qualify for the special tax rate of 20% with indexation benefit if an investor holds them for more than three years. This is a better deal than debt funds, which are taxed based on slab rates.

OPTIMISING TAX PLANNING

- The fund must have 35-65% equity allocation to qualify for 20% special tax rate
- Investors must hold these funds for more than three years for indexation benefit
- Among hybrid funds, the multi-asset allocation funds are getting more traction
- Hybrid funds act as a personalised asset allocator for investors by defining contours of asset shares



Source: Scheme documents

Change in tax norms

The interest in debt-focused hybrid funds has picked up with investors after the changes in debt taxation norms in April last year. For instance, Mahindra Manulife, Quantum Mutual Fund, HSBC Mutual Fund and Bank of India have launched multi-asset allocation funds and Parag Parikh Financial Advisory Services has launched a balanced advantage fund. All these schemes will have 35-65% equity allocation and the rest in fixed-income instruments, which will ensure indexation benefits for those who hold to the schemes for more than three years.

Nirav Karkera, head, Research, Fisdom, says these funds are a smart mix of stocks (equity) for growth and bonds (debt) for stability. "This combination helps spread out your investment risks with the steady part coming from bonds, while still giving you a chance to grow your money with stocks," he says.

Vishwas Panjiar, partner, Nangia Andersen India, says hybrid mutual funds where the benefit of indexation is available are those with equity investment of at least 35% but below 65%. "The inflation index is prescribed for an entire year as opposed to the month or date on which the investment is made. It is one of the reasons why such products gain momentum towards the end of the financial year," he adds.

Fall in bond yields

The fall in bond yields is positive for debt portfolio as it will increase the chances of mark-to-market gain apart from regular coupon of the bonds. Mukesh Kochar, national head, Wealth, AUM Capital, says debt is expected to do well and will give stability to volatility caused by the equity portion. "The equity market is at an all-time high and the risk-reward matrix is getting squeezed. At the same time interest rates have picked out and started moving down as far as the yields are concerned," he says.

Multi-asset most popular

Among hybrid funds, the multi-asset category is gaining more traction with investors. From April 2023 to January 2024, this category saw inflows of ₹26,328 crore while dynamic asset allocation funds garnered ₹7,745 crore. In terms of year-on-year growth in folios, multi-asset allocation funds lead with 81.3% folio growth, followed by aggressive hybrids at 8.95%.

Nehal Mota, co-founder & CEO, Finnovate, says multi-asset allocation funds are about an array of asset classes with varying risk-rewards ratios. "Hybrid funds act as a personalised asset allocator for investors by defining contours of asset shares. Based on risk appetite, investors make choices like aggressive versus conservative; basic assets versus complex assets; and rule-based allocation versus discretionary allocation," he points out.

Risk-reward ratio

It is important to focus on risk-reward ratio while investing. Any return increment has to come with a higher risk but the risk should not go up too much compared to an expectation of return.

Kochar says if two funds are giving almost similar kinds of returns and one has taken a low risk to generate the same and the other one has taken a higher risk to generate the same then it is clear that the investor has to go with the first one. "Risk reward also should be in relative terms rather than in isolation," he says.