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# FMPs back in focus amid rate cut hopes and volatile equity markets

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MUMBAI: Volatile equity markets, a likely cut in interest rates by 50-75 basis points in the next 12 months and poor allotment in tax-free bond issues have brought fixed maturity plans (FMPs) back in focus. Added to this, indexation benefits in the last month of the financial year have led to a surge in FMP offerings.

As many as eight FMPs with tenure of three years and above (1,130-1,180 days) have been launched by mutual funds such as Birla, HDFC, ICICI Prudential, IDFC, Reliance, SBI, Religare and UTI Mutual Fund of late.

"The uncertainty in capital markets will lure investors towards the relative safety of FMPs. These plans offer a very well diversified portfolio and with the new guidelines, mutual funds cannot invest more than 10% of its NAV in a particular security," says Himanshu Vyapak, deputy CEO, Reliance Mutual Fund.



As per distributors, a three-year bank deposit fetches around 7.25%, whereas a 'AAA' FMP would offer 8-8.25% and high yield FMPs (investing into 'AA' / 'A' rated securities) would offer 8.75-9% returns.

Added to that, liquidity in March is tight as many corporates withdraw money for advance tax outgo and balance sheet management. As a result, bond yields spike up a bit and FMPs tend to give a slightly higher return.

FMPs offer indexation benefits, which would make the returns from FMPs almost tax-free, whereas FD rates would be subject to marginal taxation rates.

"Many HNIs typically opt for FMPs in March to get indexation benefits," Dwijendra Srivastava, chief investment officer (fixed income) at Sundaram Mutual Fund. By investing in February and March, you get an additional financial year for tax calculation which reduces your tax liability. When the FMP matures in April 2019, you get the benefit of indexation for four years," Srivastava added. Due to indexation, investors ended up paying negligible tax on their 37-month FMP, using this method of calculation.

Since FMPs lock in their money immediately, there is no interest rate risk for investors and are less volatile compared to income funds or gilt funds.

However, not all distributors are keen to recommend FMPs to their investors. "We do not know the quality of portfolio which will be constructed in an FMP. In comparison to that, you can view an openend debt funds portfolio," says Vishal Dhawan, chief financial planner at Plan Ahead Wealth Advisors. Besides this, FMPs are close-ended, and hence illiquid. In case of an emergency, you will have to sell on the stock exchange at a huge discount.