Investors scramble to buy fixed maturity plans ahead of financial year-end

By *Prashant Mahesh*, ET Bureau | Updated: Mar 28, 2017, 09.24 AM IST

Mumbai: Fixed maturity plans (FMPs) of mutual funds are back in vogue as the financial year comes to an end. At least eight asset management companies have launched three-year FMPs of late as superior tax benefits and better returns than fixed deposits attract well-heeled investors to this product.

FMPs are close-ended mutual fund schemes which invest in debt instruments with maturity of the fund.

Mutual fund houses that have launched FMPs are Birla, IDFC, UTI, L&T, Reliance, DHFL Pramerica, ICICI and Edelweiss.The tenure of these funds are 1,1001,150 days. By investing in March 2017 and holding till the FMP matures in April 2020, the investment is locked for just a little over three years, but investors get indexation benefits for four years.

"There is a rush amongst HNIs to lock into these FMPs before March 31, as the extra indexation benefit ensures that the returns have very little tax liability or are virtually tax free," says Ashish Shankar, head investment advisory , Motilal Oswal Wealth Management.

Indexation takes into account inflation from the time the investor bought an asset to the time she sold it. By indexing, investors bring their cost of investment to the current value, after factoring in inflation.

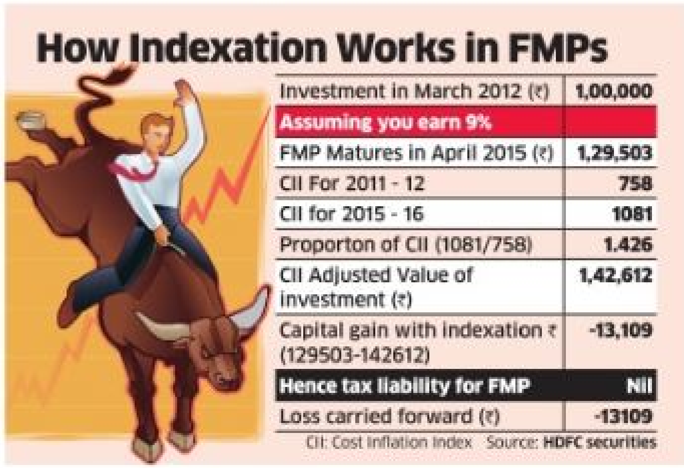
"Given the type of paper the portfolio has, investors could earn any where between 7.25% and 8%," says Rupesh Bhansali, head (distribution), GEPL Capital.

Portfolios with a higher allocation to AA rated paper could earn 8%, while those with only AAA rated paper could earn 7.25-7.5%.

Typically , March witnesses lower liquidity due to advance tax outgo and corporates moving out of money market segment for balance sheet management. As a result, FMPs tend to give a slightly higher return.Since FMPs lock in their money immediately , there is no interest rate risk for investors and are less volatile compared to income or gilt schemes of mutual funds.

"Many fixed income investors believe interest rates have stabilised after the recent bout of volatility and are keen to lock in a part of their portfolio at these rates," says Vishal Dhawan, chief financial planner, Plan Ahead Wealth Advisors.

Experts, however, advise investors to keep their liquidity needs in mind while investing in FMPs.


How Indexation Works in FMPs

Investment in March 2012 (₹)	1,00,000
Assuming you earn 9%	
FMP Matures in April 2015 (₹)	1,29,503
CII For 2011 - 12	758
CII for 2015 - 16	1081
Proporton of CII (1081/758)	1.426
CII Adjusted Value of investment (₹)	1,42,612
Capital gain with indexation ₹ (129503-142612)	-13,109
Hence tax liability for FMP	Nil
Loss carried forward (₹)	-13109

CII: Cost Inflation Index Source: HDFC securities