

Budget 2019: Tax benefit may attract retail investors to government ETFs

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Finance Minister Nirmala

Sitharaman announced in her Budget speech on Thursday that the government plans to offer an investment option in exchange traded funds (ETFs), on the lines of equity linked savings scheme (ELSS). An ELSS offers investors a tax deduction of up to Rs 1.5 lakh under Section 80C and comes with a lock-in period of three years.

Experts say this move will draw retail investors to CPSE ETFs. "CPSE ETFs have seen strong participation from institutional and high net worth investors. Now, it will be able to attract a stable flow of investors coming in with a lock-in period," says Sundeeep Sikka, chief executive officer (CEO), Reliance Nippon Life AMC, which has been managing a CPSE ETF whose assets under management (AUM) is Rs 10,657 crore.

Radhika Gupta, CEO, Edelweiss Mutual Fund (MF), too, says that the tax incentive will offer retail investors a reason to consider this product. "We are waiting for clarity on whether the ELSS-like exemption will also be extended to debt-linked CPSE ETFs," she says. Edelweiss MF recently got the mandate from the government to manage a debt ETF for CPSEs.

Financial planners are of the view that investors must weigh the merits of the underlying investment, instead of investing in it just for tax returns. “Historically, the government has not been the best allocator of capital. Hence, these companies have not ranked high in terms of stock-market performance,” says Vishal Dhawan, chief financial planner, Plan Ahead Wealth Advisors. ELSS funds have the advantage that their fund managers can choose from a wider range of companies — in the private and the public sectors — which offer them the best return prospects.

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A CPSE ETF will also have a more concentrated portfolio than an ELSS fund, as the universe of companies available to it is smaller. Higher concentration could make the performance of these ETFs volatile — both on the upside and downside.

Experts also point to the fact that Section 80C is already crowded. “Hopefully, in future, the government will increase the deduction limit under this Section,” says Gautam Kalia, head—investment solutions, Sharekhan by BNP Paribas.

One disadvantage of ETFs is that only investors having demat accounts can invest in them. The number of demat account holders stood at 34.8 million in 2018. If you do decide to invest in these ETFs, try to get your broker to set an SIP-like investment (many brokers have the ability to run an SIP for you in stocks and ETFs) so that you are able to average out your cost of purchase.