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Market Watch

# Small savings rate cuts make banking & PSU debt funds attractive

BY PRASHANT MAHESH, ET BUREAU | UPDATED: APR 02, 2020, 07.44 AM IST

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Mumbai: Investors looking for higher returns post the sharp cut of interest rates in small savings products and bank deposits by up to 140 basis points could turn to banking and PSU debt funds. These funds could give investors 6.5-7.5%, thereby helping them earn 50-150 basis points higher than small savings products.

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For those in the high tax bracket, if they hold these funds for more than three years, these products will also get indexation benefits, which will significantly improve the post-tax returns. Post the repo cut of 90 basis points by RBI, the government reduced interest rate on 1-, 2- and 3-year time deposits from 6.9% to 5.5% and on [Public Provident Fund](#) by 80 basis points to 7.1%.

Last week, SBI announced a reduction of interest rates on its fixed deposits by 20 basis points and now pays a maximum of 5.7%, and other banks are likely to announce reduction in deposit rates soon. "There is an element of safety in this category of funds as the constituents are banks and central PSUs which are backed by a sovereign guarantee," says Deepak Chhabria, founder, Axiom Financial Services. He feels investors could allocate 30-40% of fixed income portfolio to this category, considering prevailing uncertainty.



# Scorecard

Scheme Name	1 year rtn (%)
Axis Banking & PSU	9.69
LIC MF Banking & PSU	9.66
Edelweiss Banking & PSU	14.26
Franklin Banking & PSU	11.26
IDFC Banking & PSU	10.71
Kotak Banking & PSU	10.89

**Note:** As on March 31, 2020.  
Returns for direct plan

**All 5 star and 4 star funds of Value Research**

While the banking and [PSU debt fund](#) category has done well for investors in the recent past, financial planners want investors to lower their return expectations, given the sharp cuts by the RBI and subsequent cut in small savings rates. As per data from Value Research, funds have returned an average of 9.55% over the last one year and 7.55% over the last three years. “Stick to funds with good track records. If you want lower volatility, go for schemes with low modified duration,” says [Anup Bhaiya](#), MD, Money Honey Financial Services.

Given the uncertain environment we are in, financial planners believe while investors who stay invested for three years will get indexation benefit, they should not invest with that objective only. “Many funds have average maturity of around three years and modified duration of less than 3 years. If interest rates head higher, your returns will be lower; if rates hold then there is [reinvestment risk](#), and hence it would be prudent to exit at the right time rather than waiting for tax benefits,” adds Deepak Chhabria.

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