

Fixed Deposits(FD)

VS

Debt Mutual Fund

Navigating Investment Choices for Financial Success



What is a Fixed Deposit (FD)?

A Fixed Deposit (FD) is an investment where a lump sum is deposited for a set period, accruing fixed interest. Interest can be received periodically or at maturity, with compound interest.

Types of FD -

- **Standard Fixed Deposit:** Fixed term (7 days to 10 years) at a fixed interest rate.
- **Regular Income FD:** Investors choose interest payout frequency.
- **Tax Saving FD:** Mandatory lock-in for tax benefits (under section 80C).
- **Senior Citizen FD:** Higher interest rates for investors above 60 years.



Debt Mutual Fund - It is a mutual fund scheme that primarily invests in fixed-income securities. These securities include a variety of assets such as corporate and government bonds, money market instruments, treasury bills, and commercial papers, among others.

➤ Type of **Debt** Fund - Based on underlying assets and maturity duration, debt funds are classified into the below-mentioned categories.

- Overnight Fund
- Liquid Fund
- Ultra Short Duration Fund
- Low Duration Fund
- Money Market Fund
- Short Duration Fund
- Medium Duration Fund
- Medium to Long Duration Fund
- Long Duration Fund
- Dynamic Bond
- Corporate Bond Fund
- Credit Risk Fund
- Banking and PSU Fund
- Gilt Fund
- Gilt Fund with 10-year constant
- Duration Fund
- Floater Fund



Pros and Cons of Fixed Deposits (FD)

Pros:

- Guaranteed principal and fixed interest payout.
 - Stable returns with various maturity options.
- Simple investment option suitable for conservative investors.

Cons:

- Investment guarantee limited by Deposit Insurance (up to ₹5,00,000).
 - Penalty for premature withdrawal.
- Risk of negative real returns after inflation adjustment.



Pros and Cons of Debt Mutual Funds

Pros:

- Primarily invests in bonds and money market instruments for stable returns.
 - Immune from volatility in the equity market.
 - Liquidity with open-ended funds.

Cons:

- Returns are not guaranteed, unlike FDs.
- Potential for temporary negative returns during rising interest rate scenarios.
 - Liquidity risk during panic selling in certain debt funds.



Historic Return of Different Category Debt Funds

6 Month	1 Year	3 Year	5 Year	10 Year
Overnight 3.32%	Overnight 6.7%	Overnight 5.02%	Overnight 4.65%	Overnight 5.78%
Ultra Short Duration 3.33%	Ultra Short Duration 6.9%	Ultra Short Duration 5.16%	Ultra Short Duration 5.42%	Ultra Short Duration 6.53%
Liquid 3.53%	Liquid 7.12%	Liquid 5.27%	Liquid 5.09%	Liquid 6.35%
Low Duration 3.32%	Low Duration 7.12%	Low Duration 5.27%	Low Duration 5.39%	Low Duration 6.64%
Money Market 3.48%	Money Market 7.28%	Money Market 5.33%	Money Market 5.76%	Money Market 6.74%
Short Duration 3.42%	Short Duration 6.99%	Short Duration 5.66%	Short Duration 5.85%	Short Duration 6.95%
Medium to Long Duration 3.73%	Medium to Long Duration 7.65%	Medium to Long Duration 5.34%	Medium to Long Duration 5.96%	Medium to Long Duration 6.97%
Banking & PSU 3.54%	Banking & PSU 7.34%	Banking & PSU 5.34%	Banking & PSU 6.58%	Banking & PSU 7.26%
Corporate Bond 3.52%	Corporate Bond 7.5%	Corporate Bond 5.32%	Corporate Bond 6.47%	Corporate Bond 7.41%
Floater 3.45%	Floater 7.73%	Floater 5.62%	Floater 6.42%	Floater 7.14%
Medium Duration 3.68%	Medium Duration 8.07%	Medium Duration 6.1%	Medium Duration 5.54%	Medium Duration 7.39%
Gilt 3.88%	Gilt 8.09%	Gilt 5.39%	Gilt 6.92%	Gilt 8.03%
10 Yr Const Dur Gil 4.13%	10 Yr Const Dur Gil 8.78%	10 Yr Const Dur Gil 5.02%	10 Yr Const Dur Gil 7.25%	10 Yr Const Dur Gil 8.57%
Dynamic Bond 4.82%	Dynamic Bond 9.01%	Dynamic Bond 5.95%	Dynamic Bond 6.52%	Dynamic Bond 7.6%
Credit Risk 4.32%	Credit Risk 8.57%	Credit Risk 9.64%	Credit Risk 4.97%	Credit Risk 6.6%
Long Duration 5.28%	Long Duration 9.82%	Long Duration 5.47%	Long Duration 7.4%	Long Duration 8.07%

Report Date - 19/03/2024

Return over 1 Year period are annualised.

Taxation

FD Taxation -

Interest earned from an FD is fully taxable and forms part of your total tax liability. It's treated as 'Income from other sources' and subjected to Tax Deducted at Source (TDS) by the bank when credited to your account.

Debt Fund Taxation-

Recent tax amendments affect the taxation of certain mutual funds, such as debt funds with less than 35% equity exposure, which no longer qualify for indexation benefits on long-term capital gains. Consequently, they are subject to applicable slab rates. However, resident individuals redeeming debt funds are not subjected to TDS.

Debt funds offer a means to defer tax liabilities. Capital gains on units purchased after April 1, 2023, are taxed at the individual's slab rate upon redemption, differing from FDs where tax is paid annually on the accrued interest.

Illustration on Taxation Benefits of FD

Investment - ₹10,00,000

Interest - 7%

Income Tax Bracket – 30%

Post Tax Return – 4.90%

Year	Start Value	End Value	Tax Due	Value After Tax
1	₹10,00,000	₹10,70,000	₹21,000	₹10,49,000
2	₹10,49,000	₹11,22,430	₹22,029	₹11,00,401
3	₹11,00,401	₹11,77,429	₹23,108	₹11,54,321
4	₹11,54,321	₹12,35,123	₹24,241	₹12,10,882
5	₹12,10,882	₹12,95,644	₹25,429	₹12,70,216
6	₹12,70,216	₹13,59,131	₹26,675	₹13,32,456
7	₹13,32,456	₹14,25,728	₹27,982	₹13,97,747
8	₹13,97,747	₹14,95,589	₹29,353	₹14,66,236
9	₹14,66,236	₹15,68,873	₹30,791	₹15,38,082
10	₹15,38,082	₹16,45,747	₹32,300	₹16,13,448



Illustration on Taxation Benefits of Debt Fund

Investment - ₹10,00,000

Assumed Return - 7%

Income Tax Bracket – 30%

Post Tax Return – 5.31%

Year	Start Value	End Value	Tax Due	Value After Tax
1	₹10,00,000	₹10,70,000	₹0	₹10,70,000
2	₹10,70,000	₹11,44,900	₹0	₹11,44,900
3	₹11,44,900	₹12,25,043	₹0	₹12,25,043
4	₹12,25,043	₹13,10,796	₹0	₹13,10,796
5	₹13,10,796	₹14,02,552	₹0	₹14,02,552
6	₹14,02,552	₹15,00,730	₹0	₹15,00,730
7	₹15,00,730	₹16,05,781	₹0	₹16,05,781
8	₹16,05,781	₹17,18,186	₹0	₹17,18,186
9	₹17,18,186	₹18,38,459	₹0	₹18,38,459
10	₹18,38,459	₹19,67,151	₹2,90,145	₹16,77,006



Conclusion

Both FDs and Debt Funds cater to different investor preferences and risk profiles. Debt Funds offer potential tax benefits and liquidity advantages, while FDs provide guaranteed returns and simplicity. Investors should assess their financial goals and risk tolerance before choosing between them.

Thank You

Disclaimer - The information provided in this presentation is for educational and informational purposes only. It does not constitute financial advice.

Mutual Fund investments are subject to market risks. Please read the scheme related documents carefully before investing. Returns of Mutual Funds including Debt Funds are not guaranteed and past returns may not sustain in future.

