

Fixed maturity plans turn attractive

Firm rates, weak equity markets work to their favour

Sneha Padiyath

Mumbai, March 17

Rising interest rates and falling markets have pushed up the demand for FMPs – Fixed Maturity Plans, say distributors and fund analysts.

FMPs, which are traditionally products for HNIs and institutional investors, have been seeing participation from the retail investors as well, they said.

The last three months have seen 19 FMPs being launched in the industry, according to data available on the SEBI Web site.

Fixed Maturity Plans (FMPs) are pass-through products which are held till maturity.

An FMP invests in only those financial instruments whose maturity date coincides with that of the scheme itself.

FMPs are available in the 15-days, 3-month, 6-month and one-year options, some even with 3-year and 5-year options.

According to data on Value Research, there are about 650

FMP products in the industry today.

PURPOSE

“The primary motive of an FMP is to capture yield when the interest rates are high with the least amount of market risk,” explained Mr K Joseph Thomas, Head Investment Advisory and Financial Planning, Aditya Birla Money.

“The interest rates have been increasing, so the yields on the investments made on the FMPs have gone up. Also, there is no maturity risk on these products,” said Mr K Venkitesh, National Head – Distribution, Geojit BNP Paribas Financial Services.

An FMP invests into instruments such as government and corporate bonds and other money market instruments such as treasury bills, Certificate of Deposits and Commercial Papers.

“The premium corresponding to the bank deposits are not comparable to that of the CDs. The higher the duration, the

LONG-TERM PERFORMANCE

	1 year return (%)
AIG Quarterly Interval Series I Ret	12.88
Kotak Q Interval Series 6	8.66
LICMF Interval Fund Quarterly Sr 2	8.19
ICICI Prudential Q Interval II Plan D Ret	8.15
Tata Fixed Income Portfolio Scheme B3 Reg	7.93
UTI Q Interval Fund Sr VI Inst	7.43
Kotak Q Interval Series 8	7.34
Canara Robeco Interval Series 2 Quarterly Plan 2 Ret	7.33
UTI Q Interval Fund Sr VI Reg	7.32
Canara Robeco Interval Series 2 Quarterly Plan 2 Inst	7.3

more attractive are the yields on these schemes,” said Mr Rajesh Krishnamoorthy, Managing Director, iFast Financial & fundsupermart.com.

The three-month rate for these schemes right now is around 9.6 per cent-9.8 per cent, which is significantly higher than the 3-month fixed deposits of banks which are around 5.5 per cent. The Sensex during the period has

given returns of around -11.5 per cent.

MULTIFOLD BENEFITS

The benefits of investing in an FMP are many. First of all these funds are held till maturity which means that they ensure a fixed rate of returns.

Another benefit is the taxation benefit that the scheme offers. The scheme offers what is called a double indexation ben-

efit. Single indexation benefit refers to the benefit received by an investor at the end of each year while paying taxes. The inflation rate, for the year in which the investment is made, is deducted from the tax to be paid by the investor. For example, if in a year the inflation rate is five per cent and the tax rate is about 10 per cent, then the five per cent inflation rate is adjusted in the tax to be paid.

FMPs provide double indexation benefits as these schemes can be invested prior to the end of one financial year and redeemed just after the beginning of the next, thereby, giving the investor the advantage of taking into consideration the inflation rate for both years.

“However, this benefit has been under the cloud for a while as the new Direct Tax Code may do away with them. The government has put several special tax provisions under the scanner and the double indexation benefit is one of them,” said a mutual fund advisor.