

## Franklin India Taxshield

Launched in 1999, the fund's strategy to hold on to stocks in its portfolio, unperturbed by the roller coaster ride of the stock market, has helped it weather the ups and downs of markets and deliver consistent returns. The

fund has generated healthy returns for the investors by way of capital appreciation and income distribution. It has churned out a return of 31.1% annualized over the last three years as compared to 20% annualized yielded by S&P CNX 500 for the same period. Till now, the fund has declared four dividends (Table I).

<b>Table I</b> <b>Date</b>	<b>Div</b> <b>(Rs/unit)</b>
Mar 2000	8.00
May 2000	6.00
Mar 2001	1.25
Feb 2004	4.00

### BACKGROUND

Franklin India Taxshield is an open-ended Equity Linked Savings Scheme, ELSS, which aims to provide medium to long-term growth of capital along with income tax rebate. Investment of upto Rs 10,000 annually in this fund entails a tax rebate under Section 88 (2) (xiii b) and carries a three-year lock-in period.

Entry into the fund requires a minimum investment of Rs 500. The fund is available for subscription at an entry load of 2%. There is no exit load. The scheme was managing assets worth Rs 136.90 crore as on February 27, 2004.

### PERFORMANCE

Franklin India Taxshield has consistently outperformed its benchmark. The scheme has yielded 401.7% absolute returns (38.5% annualized returns) since inception in April 1999. Sivasubramanian KN, Senior Vice President & Portfolio Manager - Equity, Franklin Templeton Investments says "Our approach has been to construct a diversified portfolio of stocks with strong fundamentals that will perform well across market cycles. During the roller coaster ride of the stock markets, we continued to hold onto the stocks in our portfolio even though they fell out of favour because we believe in the fundamentals of these companies. And once the market realized the strength in these companies, they bounce back."

<b>Table II</b> <b>Period</b>	<b>CNX</b> <b>500</b>	<b>Abs.</b> <b>Returns</b>
3 years	81.5%	125.6%
2 years	77.9%	100.0%
1 year	91.3%	109.3%
6 mths	26.6%	40.3%
3 mths	-6.2%	2.9%

The NAV of the scheme touched a 52-week high of Rs 54.37 on March 8, 2004 and has since declined by 8.4% to Rs 50.17 as on March 23, 2004. The scheme's absolute return across various time periods compared with the similar return on the S&P CNX 500 for the same period are as given in Table II and Table III gives the value (as on March 23, 2004) of Rs 10,000 invested in the scheme at different periods of time.

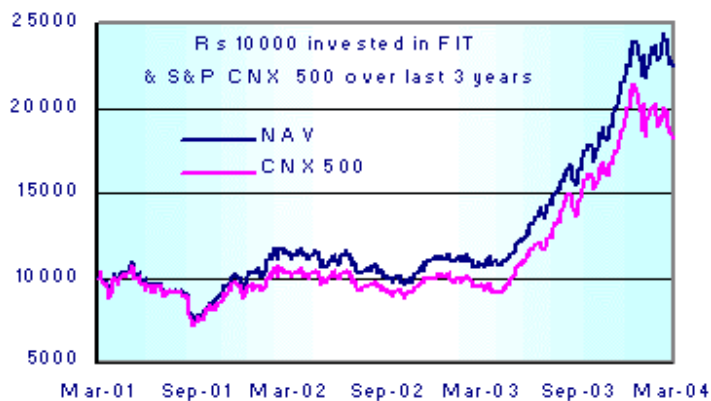


Table III Period	Invested on	Value
Inception	10-Apr-99	Rs 50,170
3 years	23-Mar-01	Rs 22,558
2 years	22-Mar-02	Rs 20,004
1 year	24-Mar-03	Rs 20,930
6 mths	24-Sep-03	Rs 14,030
3 mths	24-Dec-04	Rs 10,289

As per the moneycontrol rating, Franklin India Taxshield occupies the eighth position among its peer group of 18 open-ended equity tax saving schemes as on March 1, 2004. moneycontrol Best Picks in the equity diversified category are Birla Equity Plan, HDFC Tax Plan 2000 and Magnum Tax Gain Scheme.

**moneycontrol's mutual fund Best Picks** is based on the corpus of the scheme and relative performance of the scheme within its peer group weighted by:

- The performance over 5 time horizons (3 months, 6 months, 1 year, 2 years and 3 years), with the maximum weightage given to its one-year performance.
- The consistency of its performance
- Relative age of the scheme

#### PORTFOLIO ANALYSIS

Franklin India Taxshield has a well-diversified portfolio spread across 28 stocks. The portfolio turnover of the fund as on February 27 was 142.44%. Banking and IT are the fund's top sectors and together account for almost one fourth of the net assets. Siva feels that valuations for these sectors look attractive since both sectors are ideally positioned to take advantage of the boom in the domestic economy and the rise in demand due to outsourcing in the coming years. The exposure to these sectors however, declined in February as the scheme exited stocks where target prices were met.

Exposure to auto sector has also been geared up over the last two quarters to almost 5% as against a meager 0.05% in September 2003. Maruti, Mico and Eicher have been introduced into the portfolio over this period, while it exited Hero Honda motors in February. Siva believes that the increasing domestic demand on the back of strong growth in the economy augurs well for the auto sector. However, growing competition and increasing raw material prices are likely to impact



margins going ahead, he adds.

Weightage to the oil & gas and pharma sector has been more than halved over the last 6 months. The scheme exited BPCL, IOC and ONGC in January, while exposure to HPCL witnessed a sharp surge to 9.24% in January as against 3.08% in December 2003. Commenting on these sectors, Siva said, "We continue to be bullish about these sectors. The cutback in exposure was due to relative valuation considerations and as we exited stocks where our target prices were

met."

Among individual stocks, heavyweights ITC, SBI and Infosys have been among the fund manager's favourites, while it exited ICICI Bank in February. Weightage to engineering and capital goods sector represented solely by L&T has seen a continuous rise to almost 7% as against 1.5% in September 2003. Media stocks TV Today and TV18 were introduced into the portfolio in January this year and they together currently account for almost 4.5% of the total portfolio.

The fund's cash component has shot up to more than 15% in February. Commenting on this, Siva said, "We raised our cash exposure to participate in some of the IPOs and also for dividend payouts." Meanwhile, the fund's AUM has augmented by more than 16% over the last 6 months to Rs 136.90 crore.

#### **Expert Speak**

Sivasubramanian KN, Senior VP & Portfolio Manager - Equity, Franklin Templeton Investments

#### **What is the fund's investment philosophy?**

**Sivasubramanian:** Our investment philosophy is focused less on macroeconomic indicators or taking views on the markets and more on individual companies and the wealth they are creating for their shareholders. While broad analysis of the economy and various sectors is a starting point, we stress on a deeper search for businesses and managements creating wealth, some of which could even be in out-of-favor sectors. The belief is that there are stocks that need to be bought and sold regardless of the state of markets. We follow a bottom up approach to stock picking and choose the best companies irrespective of their sector classification. Our research focuses not only on the track record of the company, but also on their future strategies and their ability to continue to generate wealth on a sustained basis in a competitive business environment.

#### **The fund has significantly pared exposure to the oil & gas sector over the last 6 months.**

#### **What is your view on the future prospects of this sector?**

**Sivasubramanian:** The sector is likely to remain in limelight due to various factors. Our investments in this sector were based on our belief that the de-regulation of downstream oil sector would improve the margins of oil retailing companies and were done much before the divestment story broke out. Demand for petro-products, which had been subdued in the last two years, is expected to show strong growth on the back of revival in the Indian economy. Now, players like BPCL and HPCL are selling premium products in metros, which are offering them better margins. All these companies have lot of infrastructure in place, the benefits of which would continue to help shore up bottomline. Even if the trigger in the form of divestment does not materialize, the improving fundamentals should favourably impact profits.

#### **Weightage to the pharma sector has been on a decline, what is your outlook for the sector?**

**Sivasubramanian:** The generics market is expected to grow steadily in the coming years aided by patent expiries and successful patent challenges. Indian companies with access to a large pool of skilled chemists, track record of innovation and approved manufacturing facilities have an advantage. When one adds the long-term potential of the "domestic healthcare market", the prospects for the Indian pharmaceutical sector look bright. Currently, the spending on healthcare in India is about 5.1% of the GDP, which is far lower compared to 13.9% in the USA, and 8 % in Japan. Per capita spending in India is about \$ 24 in India compared to over \$ 49 in China and around \$4887 in US. With the economy on the growth path, as incomes rise, healthcare is one of the areas most Indians will be willing to spend more. Availability of health insurance will facilitate use of better medicines and healthcare facilities and also widen the user base.

#### **One reason why investors should invest in Franklin India Taxshield today?**

**Sivasubramanian:** The scheme is suitable for investors who are looking to save on their taxes and at the same time access the potential of equities, which look attractive from a long-term horizon. The typical investment timeframe these investors are looking at is 3-5 years.

**What is your outlook for the stock markets?**

**Sivasubramanian:** The current volatility is due to confluence of factors such as the slew of equity issuances, profit booking and speculators moving out given the slack in momentum. We believe that such corrections are inevitable after the sharp run up witnessed in the latter part of 2003 and is likely to be healthy for the markets. However, from a longer-term perspective the markets are attractively poised given the corporate and economic fundamentals.