Debt mutual funds vs bank FDs: Where to invest for higher returns?

By Surbhi Khanna Last Updated: May 21, 2024, 11:17:00 AM

Around six debt mutual funds have outperformed against the return offered on fixed deposits for a tenure of one year. These six categories offered returns ranging between 6.81% - 7.46% in the last one year against the interest rate of 6.8% offered by SBI on fixed deposits for the tenure of one year to less than 2 years.

ET Mutual Funds analysed the one-year performance of the all-debt mutual fund categories with the interest rate on fixed deposits offered by the PSU bank - SBI.

SBI FD interest rates

For a tenure of 180 days to 210 days, SBI raised the interest rate by 25 basis points from 5.75% to 6%.

For a fixed deposit of tenure 211 days to less than 1 year, the interest rate is hiked from 6% to 6.25%. In two years to less than 3 years, the interest rate offered is 7%.

For tenure of three years to less than five years and five years to less than 10 years, the interest rates offered are 6.75% and 6.5%, respectively.

Debt Mutual Funds

Floating Rate Funds and Credit Risk Funds gave 7.46% return each in the last one year. There were around 14 funds in the floating rate fund category. Baroda BNP Paribas Floater Fund, the topper in the floating rate fund category, offered 8.04% return in the said period. SBI Floating Rate Debt Fund gave 8.03% return.

DSP Credit Risk Fund, the topper in the credit risk fund category, gave 15.15% return in the last one year. Invesco India Credit Risk Fund gave 7.85% return in the said period.

Liquid Funds and Money Market Funds gave 7.13% return each in the said period. There were around 34 schemes in the liquid fund category that have completed one year of the existence in the market. Bank of India Liquid Fund, the topper in the category, gave 7.30% return in the said period. Axis Liquid Fund gave 7.27% in the same time period.

Low Duration Funds gave 6.92% return in the last one-year period. ICICI Prudential Savings Fund gave the highest return of 7.79% in the one-year period. HSBC Low Duration Fund gave 7.27% in the same period.

Ultra Short Duration Funds offered 6.81% in the same period. Aditya Birla Sun Life Savings Fund offered the highest return of 7.42% in the last one year period. Mirae Asset Ultra
Short Duration Fund offered 7.31% return in the same period.

Debt Mutual Funds: One year Scorecard

How have these debt mutual fund categories managed to deliver this performance and outperform the fixed deposit interest rate? “With liquidity in the system having been rather tight in the last year or so, and RBI maintaining both interest rates at elevated levels without a change in stance, very short-term debt funds have done well,” said Vishal Dhawan, CEO, Plan Wealth Advisors, a wealth management firm in Mumbai.

The other debt categories offered returns ranging between 5.62% - 6.68% return in the last one year. These categories included Short Duration Fund, Long Duration Fund, Medium to Long Duration Fund, Banking and PSU Fund, Gilt Fund, Dynamic Bond, Corporate Bond Fund, Overnight Funds, Medium Duration, and Gilt Fund with 10-year constant duration.

Now the question comes, should one consider investing in debt mutual funds over fixed deposits? What should be the strategy one should follow? “This situation may continue as the US Fed has deferred its plan to reduce interest rates depending on how the inflation trajectory plays out, and the RBI may continue to maintain interest rates at current levels unless inflation moves sustainably towards the 4% target that they have set,” recommends Dhawan.

He further adds, “Thus investors seeking to have flexibility on the fixed income part of their portfolio to get access to funds whenever needed, could continue to look at the categories of very short term debt funds i.e. liquid, money market, ultra short and low duration.”

We considered all debt categories such as gilt fund, long duration, medium to long duration, gilt fund - constant maturity 10-year, credit risk funds, liquid funds, money market funds, overnight funds, corporate bond fund, dynamic bond fund, floating rate bond, banking and PSU funds, medium duration, low duration, short duration funds. We excluded debt-based target maturity funds. We considered regular and growth options.

We calculated returns as in debt mutual funds, returns up to one year are annualised.

One should always consider risk profile, investment horizon and goal before making investment decisions.