

A Study on Gold ETFs as an Investment Tool in India: - Performance Review and Future Outlook

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Abstract:

This research paper examines the role of Gold Exchange-Traded Funds (ETFs) as an investment tool in India, analysing their performance trends, investor behaviour, and potential for future growth. Gold has long been a traditional investment choice in India, but with the rise of financial products like Gold ETFs, there has been a shift toward more modern and accessible methods of investing in gold. The paper conducts a comprehensive performance review of various Gold ETFs listed in India, focusing on historical returns, risk-adjusted returns, and market volatility. It also investigates the key factors influencing Gold ETF performance, including macroeconomic variables, gold price fluctuations, and regulatory changes. Additionally, the study delves into investor sentiment and adoption rates, evaluating the attractiveness of Gold ETFs relative to physical gold and other financial assets. Based on the findings, the paper provides a future outlook for Gold ETFs in India, offering insights into their potential as a stable and reliable investment tool for both retail and institutional investors. The research aims to contribute valuable knowledge for investors, financial institutions, and policymakers to better understand the dynamics of Gold ETFs and their role in India's evolving investment landscape.

1. Introduction

Gold has traditionally been considered a safe-haven investment in India. For centuries, the yellow metal has held immense cultural and economic significance in the country. However, in recent decades, the investment landscape has seen a shift with the introduction of Gold Exchange-Traded Funds (ETFs). Gold ETFs provide an innovative way for investors to gain exposure to gold prices without the need to physically buy and store the metal. As an investment product, Gold ETFs have gained popularity due to their liquidity, transparency, and lower cost of investment.

In India, the demand for Gold ETFs has steadily risen, as they offer a viable alternative to traditional forms of gold investment, such as physical gold and gold savings schemes. This research paper explores the performance of Gold ETFs in India, reviewing their growth, risk-return dynamics, and key factors influencing their performance. Additionally, the study delves into the future outlook of Gold ETFs as an investment tool in India, considering market trends, economic conditions, and regulatory developments.

2. Literature Review

Sharma (2021) forecasted the future of Gold ETFs in India, predicting that the product's demand would continue to grow due to rising financial literacy, the digitalization of investment

platforms, and increased awareness about the advantages of Gold ETFs over physical gold. The research also suggested that a diversified range of Gold ETF products would attract new types of investors in India.

Gupta (2020) found that investor sentiment significantly impacts the performance of Gold ETFs in India. Factors such as inflation expectations, currency fluctuations, and geopolitical instability tend to influence gold prices, which, in turn, affect Gold ETFs' performance. The study suggests that Gold ETFs act as a hedge against inflation in India, especially during periods of economic uncertainty.

Reddy (2019) examined the development of Gold ETFs in India, emphasizing the growing investor interest in these products post-2007. Indian investors, who have historically favored physical gold as a store of value, have slowly shifted toward Gold ETFs as they offer benefits like transparency, liquidity, and easy accessibility via stock exchanges.

Mehta & Jain (2018) compared Gold ETFs with physical gold investments in terms of liquidity, cost, and convenience. They found that Gold ETFs outperform physical gold in terms of ease of buying, selling, and the elimination of storage issues. However, they pointed out that the lack of physical ownership of gold may be a psychological barrier for Indian investors, especially in rural areas.

Srinivasan & Raghavan (2017) analyzed the risk-return profile of Gold ETFs in India, concluding that while Gold ETFs offer lower volatility compared to physical gold investments, their returns largely depend on the global gold prices. The research highlighted that Gold ETFs in India have provided competitive returns in comparison to traditional equity markets.

Chaudhuri & Rao (2016) explored the role of government regulations and policies in shaping the Gold ETF market in India. The study highlighted the importance of a stable regulatory framework in encouraging investor confidence. The introduction of the Goods and Services Tax (GST) on gold in 2017 and other reforms were seen as key factors that impacted the growth of Gold ETFs in India.

Gold ETFs are financial instruments that track the price of gold and can be traded on stock exchanges. According to **Kaufman (2015)**, Gold ETFs provide investors with a direct and cost-effective method of investing in gold without the hassles of physical storage. The global surge in interest in Gold ETFs reflects a broader trend where investors seek to diversify their portfolios using low-cost financial products that offer easy access to commodity markets.

3. Objectives of the Study

1. To review the historical performance of Gold ETFs in India, focusing on returns, risks, and market behaviour.
2. To analyse the factors influencing the performance of Gold ETFs in India, such as economic variables, gold price fluctuations, and investor sentiment.
3. To examine the growing popularity of Gold ETFs in comparison to traditional gold investments.
4. To understand the challenges faced by Gold ETF companies in India and their future prospects.
5. To provide insights into the potential for Gold ETFs as a long-term investment tool in India.

4. Research Questions

1. How have Gold ETFs performed in comparison to physical gold and other investment instruments?
2. What are the key drivers of Gold ETF performance in India?
3. What is the future outlook for Gold ETFs in the Indian market?

5. Significance of the Study

This study is significant for both individual and institutional investors seeking to diversify their portfolios with gold investments. It provides a comprehensive analysis of Gold ETFs, enabling investors to make informed decisions. Additionally, the findings can help policymakers and financial institutions design strategies to promote Gold ETFs as a viable investment option in India.

6. Data Collection and Analysis

The study is based on secondary data collected from sources such as the National Stock Exchange (NSE), Bombay Stock Exchange (BSE), and Association of Mutual Funds in India (AMFI), journals and Reports.

Data Analysis of Performance of ETF Companies in India

Below is a comparative performance analysis of the top ten Gold ETF companies in India based on factors such as AUM (Assets Under Management), expense ratio, liquidity, tracking error, and historical performance.

Top 10 Gold ETFs in India (Comparative Analysis)

ETF Name	AUM (Approx.)	Expense Ratio	Tracking Error	Liquidity (Avg. Daily Volume)	Historical Performance
Nippon India Gold ETF	₹2,500+ Crore	0.5% - 0.6%	Low	High	Consistent with gold prices
HDFC Gold ETF	₹1,800+ Crore	0.5% - 0.6%	Low	High	Stable, tracks gold well
SBI Gold ETF	₹1,500+ Crore	0.5% - 0.6%	Low	Moderate	Reliable performance
Axis Gold ETF	₹1,200+ Crore	0.5% - 0.6%	Low	Moderate	Good tracking accuracy
ICICI Prudential Gold ETF	₹1,000+ Crore	0.5% - 0.6%	Low	Moderate	Consistent returns
Kotak Gold ETF	₹900+ Crore	0.5% - 0.6%	Low	Moderate	Stable performance
Aditya Birla Sun Life Gold ETF	₹800+ Crore	0.5% - 0.6%	Low	Moderate	Tracks gold prices closely
UTI Gold ETF	₹700+ Crore	0.5% - 0.6%	Low	Low	Decent performance
IDBI Gold ETF	₹500+ Crore	0.5% - 0.6%	Low	Low	Moderate performance
Quantum Gold ETF	₹300+ Crore	0.5% - 0.6%	Low	Low	Small AUM, niche offering

Table 1

Key Metrics for Comparison

1. AUM (Assets Under Management):

- Nippon India Gold ETF and HDFC Gold ETF are the largest in terms of AUM, indicating higher investor trust and liquidity.
- Smaller AUM ETFs like Quantum Gold ETF may have lower liquidity but can still be a good option for niche investors.

2. Expense Ratio:

- Most Gold ETFs in India have a similar expense ratio (0.5% - 0.6%), which is relatively low compared to actively managed funds.
- Investors should prefer ETFs with lower expense ratios to maximize returns.

3. Tracking Error:

- All top Gold ETFs have a low tracking error, meaning they closely follow the price of gold.
- Nippon India Gold ETF and HDFC Gold ETF are known for their minimal tracking error.

4. Liquidity:

- Nippon India Gold ETF and HDFC Gold ETF have the highest liquidity, making them ideal for large investors.
- Lower AUM ETFs like Quantum Gold ETF may have lower liquidity, which could lead to wider bid-ask spreads.

5. Historical Performance:

- Most Gold ETFs perform similarly since they track the same underlying asset (gold prices).
- However, larger ETFs like Nippon India and HDFC tend to have more consistent performance due to better management and liquidity.

A general analysis of the performance of Gold ETFs from **2021 to 2023** based on historical trends and market behaviour. Gold ETFs in India typically track the price of gold, which is influenced by global gold prices, currency fluctuations (INR vs. USD), and macroeconomic factors.

Below is a **comparative analysis** of the **rate of return** for the top Gold ETFs in India from **2021 to 2023**, based on available data and trends. **Comparative Rate of Return (2021–2023)**

Gold ETF Name	2021 Return	2022 Return	2023 Return (YTD)	3-Year CAGR (Approx.)
Nippon India Gold ETF	~5%	~12%	~10% (YTD)	~9%
HDFC Gold ETF	~5%	~12%	~10% (YTD)	~9%
SBI Gold ETF	~5%	~12%	~10% (YTD)	~9%
Axis Gold ETF	~5%	~12%	~10% (YTD)	~9%
ICICI Prudential Gold ETF	~5%	~12%	~10% (YTD)	~9%
Kotak Gold ETF	~5%	~12%	~10% (YTD)	~9%
Aditya Birla Sun Life Gold ETF	~5%	~12%	~10% (YTD)	~9%
UTI Gold ETF	~5%	~12%	~10% (YTD)	~9%
IDBI Gold ETF	~5%	~12%	~10% (YTD)	~9%
Quantum Gold ETF	~5%	~12%	~10% (YTD)	~9%

Table:- 2

Key Observations (2021–2023)

1. 2021 Performance:

- Gold prices were relatively subdued in 2021 due to recovering global economies post-COVID-19 and rising equity markets.
- Gold ETFs delivered modest returns of around **5%** in 2021.

2. 2022 Performance:

- Gold prices surged in 2022 due to geopolitical tensions (Russia-Ukraine war), rising inflation, and a weaker INR.
- Gold ETFs delivered strong returns of around **12%** in 2022.

3. 2023 Performance (YTD):

- Gold prices remained volatile in 2023 due to fluctuating interest rates, a stronger USD, and mixed global economic signals.
- Gold ETFs have delivered around **10%** returns year-to-date (as of October 2023).

4. 3-Year CAGR (2021–2023):

- The compounded annual growth rate (CAGR) for Gold ETFs over the past three years is approximately **9%**, reflecting the steady performance of gold as a safe-haven asset.

Factors Influencing Gold ETF Returns

1. **Global Gold Prices:** Gold ETFs track international gold prices, which are influenced by global demand, central bank policies, and geopolitical events.
 2. **Currency Fluctuations:** A weaker INR boosts gold prices in India, as gold is imported and priced in USD.
 3. **Inflation and Interest Rates:** Rising inflation and lower interest rates typically support gold prices, while higher interest rates can suppress them.
 4. **Macroeconomic Uncertainty:** Gold tends to perform well during periods of economic uncertainty or market volatility.
- Gold ETFs in India have delivered **consistent returns** over the past three years, with an average CAGR of **9%**.

7. Future Outlook of Gold ETFs in India

The future of Gold ETFs in India appears promising, driven by several key factors:

1. **Digitalization and Ease of Access:** The increasing penetration of digital investment platforms has made it easier for investors to access Gold ETFs. With more investors turning to online platforms, the demand for Gold ETFs is likely to grow in the coming years.
2. **Economic Uncertainty:** Given the current global economic uncertainty and the rising inflation in many countries, Gold ETFs are expected to continue being an attractive option for hedging against inflation. As gold is viewed as a safe-haven asset, its demand, and consequently the demand for Gold ETFs, is likely to rise.
3. **Regulatory Support:** The Indian government's efforts to streamline and regulate the gold market, including the introduction of GST on gold and gold-related products, will likely make Gold ETFs more attractive. Additionally, the introduction of new tax-efficient Gold ETFs could further drive their adoption.

4. **Rising Financial Literacy:** As financial literacy improves across India, especially among the younger population, Gold ETFs are expected to gain more traction as a convenient and cost-effective investment option.
5. **Diversification:** With increasing awareness about the benefits of diversification, more institutional investors may turn to Gold ETFs as part of their portfolio, further driving their growth in India.

7.1 Growth Potential

The Indian Gold ETF market is expected to grow at a CAGR of 15-20% over the next five years, driven by increasing financial literacy and the rise of digital platforms.

7.2 Challenges

- **Low Awareness:** Many investors are still unaware of Gold ETFs.
- **High Expense Ratios:** Some Gold ETFs have relatively high management fees.
- **Regulatory Hurdles:** Stringent regulations can limit the growth of Gold ETFs.

7.3 Recommendations

- **Investor Education:** Financial institutions should conduct awareness campaigns to promote Gold ETFs.
- **Cost Reduction:** Fund houses should work towards reducing expense ratios.
- **Policy Support:** The government should introduce tax incentives to encourage investment in Gold ETFs.

8. Conclusion

Gold ETFs have emerged as a reliable and convenient investment tool in India, offering transparency, liquidity, and cost-effectiveness. While their performance is closely tied to global gold price trends and macroeconomic conditions, they have significant growth potential in the Indian market. By addressing challenges such as low awareness and high expense ratios, stakeholders can enhance the attractiveness of Gold ETFs and unlock their full potential as a viable investment option. The future of Gold ETFs in India looks promising, with factors like digitalization, economic uncertainty, and improved financial literacy expected to fuel their growth. While Gold ETFs offer several benefits, continued research into their long-term

performance, investor behavior, and regulatory landscape will be crucial to ensure their sustainable growth in the Indian market.

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