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THE BOTTOM LINE

Personal Wealth Management



FOREWORD

Dear Readers,

Hope this finds you well.

We are pleased to launch the sixth edition of the Bottom line – a joint e-magazine published by the finance and investment clubs of few of the top B-Schools in India. Over the past five editions, we have tried to cover different topics under the finance realm, and for this edition, we have something utilitarian for MBA students in general – **personal wealth management**.

With the academic year about to come to a close, we will see students join the corporate world either as interns or full-time hires, earning stipend or salary, as the case may be. This edition will highlight some important and interesting aspects which can be looked at to inculcate financial discipline and planning right from the start.

This edition starts by explaining how behavioural biases affect personal finance and wealth management. Apart from that, while we talk about the regular tax planning related aspects a prospective salary-earner should be aware of, we also bring you an upcoming concept of FIRE (financial independence, retire early) – it may be everyone's dream, so we thought we should try to explain what it entails. As we enter the month of February, we turn our attention to the budget session in the early part of this month. Barring a few minor changes, the personal tax system remained untouched to a large extent. However, the Govt did sound out the bugle for asset monetization via InvITs and REITs. One of the articles here will take you through the concept of REITs and its role as an investment product in the Indian market. Finally, we have appended a short FY22 budget analysis by the students at IIM Calcutta.

We hope you find it useful – especially for the ongoing placement season.

As always, we are open to feedback and love to hear whatever our readers have to say.

Happy reading!

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CAN OUR BEHAVIOURAL BIASES AFFECT OUR PERSONAL FINANCE?

When it comes to our Personal Finance, we want to take the best decisions in the most rational way. Although standard finance would assume people to be rational, it is hardly the case in the real world. People are, rather, normal, as opposed to rational. Normal people have limited cerebral capacity and are inflicted by biases and emotions. Recognizing these inherent limitations of normal people, behavioural economists have contributed enormously to the field. Daniel Kahneman, Robert Shiller, Richard Thaler are among the luminaries who have received the Nobel Prize for their path-breaking findings. To cite an example, the SMaRT plan of Thaler and Benartzi have helped the employees to have a better outcome in their personal finance in terms of retirement planning. The researchers found that a vast majority of the people want to save for the future, but when it comes to implementation, they would always postpone the same. The SMaRT plan was such that employers would automatically deduct a part of the salary as retirement savings. But, this was not to be compulsory. The employees have the choice to opt out. The inherent inertia of the employees made them to go with the automated deduction, rather than the effortful decision of opting out. This is to harness the *power of default*. Further the deductions are not from today's salary, but are tied up with future increments. So, the employees do not feel the pain of parting with the money today, rather they associate it with a future deduction from a future inflow. The *mental accounting* process of the people are not disturbed as nothing gets disturbed now, but deduction is from a separate mental account of a future flow. These thoughtful steps in the retirement planning initiated by the employers have helped numerous employees in happily saving for the future.

To cite a recent example how our behaviour affects our personal finance. In January, 2021, Elon Musk tweets "Use Signal" for the messaging app "Signal".

People misunderstood the message and flocked to buy the shares of "Signal Advance", a company in the medical services sector. The share price of this unrelated company surged by 527% in a single day. One can well imagine the plight of the buyer at the highest price, who would have lost quite heavily when the reality would unfold. The tendency to react to what one hears - which can be most often noise rather than news, and following the herd can be extremely counterproductive to a sound personal financial planning. The cartoon below depicts the frenzy of the herd. Scores of examples of *herd mentality* can be cited. The pandemic caused the markets to go down, which to some extent was justifiable, but the vast majority of investors would have done panic selling imagining an end of the world and their actions would have sent the prices lower. Historically, it has been seen that the equity market has given huge returns over a long horizon. So, the investors who make an exit triggered by panic selling would have suffered enormous losses and would have lost out on the opportunity to make long term gains.



Source: Baltimore Sun. Collection: Association of American Editorial Cartoonists (AAEC) Records

We, as humans are *averse to ambiguity* and many employees end up investing a vast sum of their money in the shares of the company they work for, thinking that they understand the company better than no other. One may ask, what's wrong with that? Well, the simple concept of diversification goes for a toss as not only the investment, but also the labour is put into just one company and if something goes wrong with the company, both the job as well as financial investment becomes precarious.

The above discussion briefly illustrates how our own ways of thinking can make or mar our personal finance. So, the point to understand is that the more we become aware of our behavioural biases, the better it is for our financial health. The field of behavioural finance is relatively new. However, there is an agreement that its understanding has far-

reaching consequences on people's finance and also goes a long way in explaining the irrational swings in the market.

In sum, therefore, it pays to pay attention to our biases and emotions. This understanding can pave the way for better personal financial planning.



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PERSONAL TAX PLANNING 101

"The hardest thing in the world to understand is Income Tax." -Albert Einstein

As the First-year MBAs are going for their internships and the Second Year MBAs would be stepping into their careers in the upcoming summer, personal Tax Planning is something that they should be considering to reduce their tax burden. Income tax is a tax imposed by the Government on its citizens, based on the citizens' income during the previous year. There are broadly three main ways to reduce the tax from one's income:

1. Tax Evasion
2. Tax Avoidance
3. Tax Planning

	Tax Planning	Tax Avoidance	Tax Evasion
Legality	Legal	Sometimes Legal	Illegal
Meaning	Arranging one's financial affairs by taking all the completely legal exemptions, deductions and rebates to reduce tax liability.	Tax Avoidance reduces one's tax liability using permissible ways of law, i.e., legal loopholes, without any malicious motive behind it.	Any method to illegally reduce tax liability is classified as Tax evasion.
Period	Done before or after the tax liability arises.	Done before the tax liability arises.	Done after the tax liability arises.

Litigation	No Litigation is required to avail benefits.	Litigation might be required to avail benefits.	It is illegal in nature.
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For Tax Planning, the lawmakers have broadly given three reliefs to the taxpayers in the form of Exemptions, Deductions and Rebate.

Exemption: The Indian Tax system follows a Slab-rate system for Individuals and HUFs, wherein income is taxed at a different tax rate for each different slab. From FY 2020-21, there are two different slab rates regimes in effect:

Income in INR	Old Regime	New Regime
<2,50,000	-	-
2,50,000-5,00,000	5% (conditionally nil)	5% (conditionally nil)
5,00,001-7,50,000	20%	10%
7,50,001-10,00,000	20%	15%
10,00,001-12,50,000	30%	20%
12,50,001-15,00,000	30%	25%
15,00,001 and above	30%	30%

Any income below INR 2,50,000 is exempt, and no tax has to be paid on the same. Individuals having Income between INR 2,50,000 to INR 5,00,000 are taxed at 5%; however, they can claim Rebate u/s 87A of the Income Tax Act, 1961, effectively making the tax Nil. However, if the income exceeds INR 5,00,000, the amount of INR 2,50,000 (income from INR 2,50,000 to INR 5,00,000) shall be taxed entirely at 5%, and no rebate can be claimed.

Tax- Payers get an option to choose from the old tax regime or the new tax regime; whichever regime gives them the lowest taxes.

Deductions: The Income Tax Act, 1961 has provided many deductions from their incomes to the taxpayers. Some of the most common and relevant deductions that can be availed are as follows (Only available in the Old Tax Regime):

Standard Deduction: The Act allows a flat deduction of INR 50,000 or the Salary amount whichever is lower to anyone having any Salary Income.

Section 24: Interest amount payable on the Housing Loan during the previous year is deductible under this section. To claim this deduction, the interest is only required to have accrued and not necessarily paid. An additional 30% of the property's annual value is also allowed as a deduction in this section.

Section 80C: Individuals can claim up to INR 1,50,000 deduction from their income by making some specific investments or payments. Such investments can be made into:

- Payment of Life Insurance Premium for self, spouse or child;
- Investment into any recognized Provident Funds (interest received on the provident fund are exempt from income tax);
- Investment in Specified Equity Oriented Mutual Funds
- Superannuation Funds;
- Tuition Fee paid in any School, University or other Educational Institute situated in India for Self, Spouse or Child;

- Some Specified National Savings Certificates;
- Payment of principal component of Housing Loan repayment considered in Income from House Property;
- Notified Bonds and term deposits among others.

Section 80D: If an individual has paid the premium for health insurance or health check of Self or family up to total INR 25,000 and for Parents up to total INR 25,000, they can claim this deduction. If any of the said person is above the age of 60, the limit is substituted to INR 50,000 in both cases.

Section 80E: Any interest paid on Education Loan taken for Higher education (Anything after Class XII or equivalent) of Self or Relative can be claimed for deduction. There are no limits for this deduction.

Section 80TTA: Interest received from any deposits other than Time Deposits is deductible from an individual's total income for up to INR 10,000 or the actual deposit, whichever is lower.

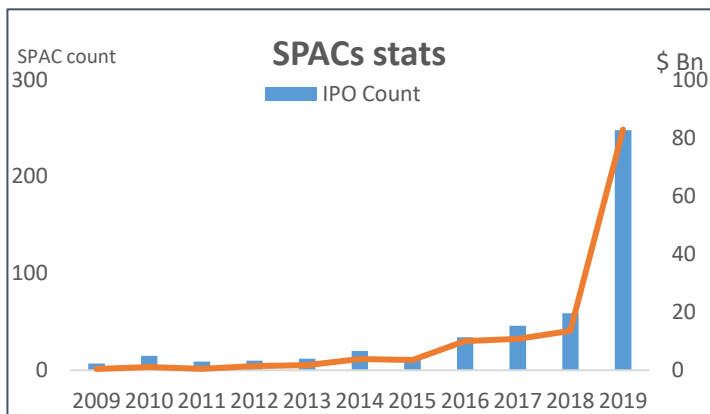


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DOES SPACs BOOM SPELL TROUBLE FOR IPOs?

SPACs or Special purpose acquisition companies are blank cheque companies formed for the purpose of raising capital to acquire another private company. SPACs act as investment vehicles having no operational business of their own and may not even have a target at the time of their IPO. SPACs acquisitions are sort of reverse mergers with better management and less risk for investors involved in the transaction. Though SPACs have been around since 1993, they have recently become a popular vehicle for firms to go public. In 2020 alone, 248 SPACs have held IPOs raising gross proceeds of \$82.825 billion [1]. The increase in popularity of SPACs can be gauged from the fact that in 2019, only 59 SPAC IPOs were held raising \$13.6 billion which means an increase in capital of more than 500% in 2020.



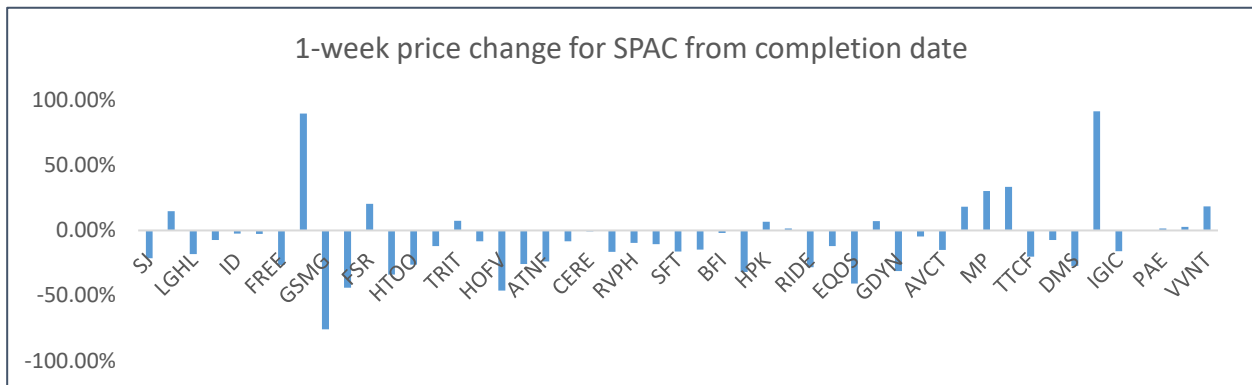
So, what explains this growing interest in blank cheque companies? For one, SPACs offer a relatively fast way for a company to go public as compared to traditional IPOs. It helps when a young company wants to go public in as short time as it lowers administrative burden via SPACs. SPACs are also less subjected to market risk timing. SPACs have low direct expenses and relatively less IPO cost due to lower legal requirements. SPACs solve the issue of pricing certainty as SPACs can negotiate with individual companies for a merger price. Lastly, SPACs are perceived to solve the issue of underpricing that typically exists in IPOs.

How do SPACs work?

SPACs are generally created by industry experts, investors or private equity players. These are called SPAC sponsors. These sponsors hire investment banks (underwriters) to go public through an IPOs. The proceeds from IPO is kept in the escrow account and receives interest on the amount. These funds are used for the acquisition only and must be returned to investor in case of liquidation [2]. The SPACs can be formed with or without the identification of a target. Even if they have identified their target, they do not disclose it to avoid the higher regulatory compliance of the IPO. Once the target is identified, shareholders' approval is taken for the acquisition by voting. Shareholders have the option to redeem their shares if they do not want to approve the transaction. The sponsors have two year to identify the target and merge with it. If sponsors do not find any suitable target, then SPAC is liquidated, and proceeds are returned to investor with the accumulated interest. There are also some restrictions on the SPAC such as acquisition amount should be greater than 80% of the IPO proceed and acquisition should be in the same industry of the SPAC's registered industry.

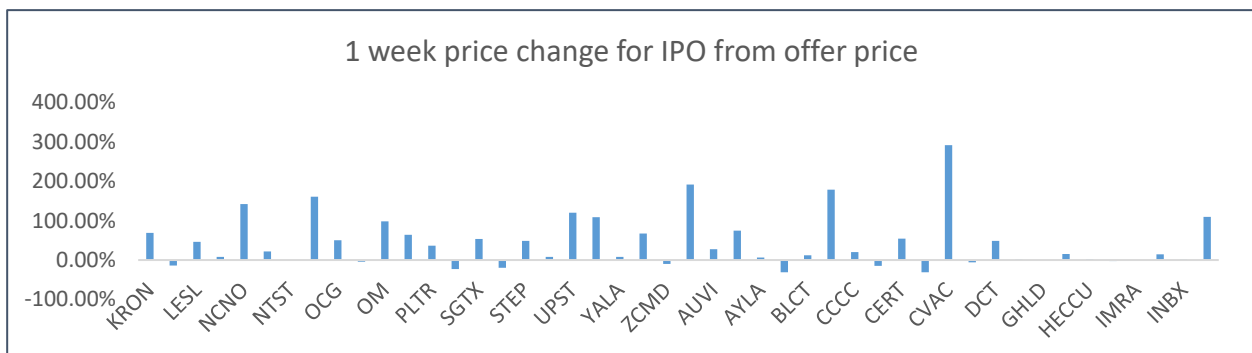
Do SPACs solve the IPO underpricing?

To figure it out whether the SPACs solves the issue of underpricing in IPOs, we analyzed the data of SPACs and IPOs listings for 2020. We observed the listing date and 1-week return for 49 SPACs and 46 randomly selected IPOs in 2020. From the graph below, it can be observed that the 14 out of 49 companies which went for SPACs merger in 2020 saw the positive price in the first week of SPAC completion. Only 2 companies had price change higher than 40% and none of companies saw price increase by more than 100%. The average return and the medium returns were observed to be -7.01% and -9.49% respectively.



For IPOs, it can be observed that the 34 out of 46 companies which used IPO route for their listing in the 2020 saw positive price change while rest 12 companies had negative price change. About 19 companies share price increased by 40% and 8

companies share surpassed 100% price increase mark. The average return for 46 IPO companies in 2020 came out to be 43.56% and the medium returns were observed to be 17.45%.



From the above observations, it can be concluded that no. of positive price change for the SPACs has been lesser than positive price for the IPOs. Also, the 1-week average and median price change is also lower for the SPACs than IPOs. The above statistics infer that the SPCs has the potential to subside the problem of IPO underpricing but due to small sample and change in dynamics of SPACs boom, it is hard to conclude that SPACs will completely solve the IPO underpricing problem.

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RISE OF REITS IN INDIA

The ILFS crisis raised numerous questions about the current real asset problem faced in India. The problem is primarily of promoters not feeling bounded and responsible to deliver projects on time.

Even with the introduction of RERA Act, the problem related to ring financing persisted. The promoters were still investing amount collected from one project in another project delaying the further processes and creating a crunch.

With a large unsold inventory lying in India, not clearing in even major metropolitan cities, it forces us to ask the question what constitutes right prices in India for real estate. India has faced a common trend where it's better to rent than to own a property because of overvalued market prices in India. Given these prices, the scope of correction of the market prices is also low. So probably, the only solution is to provide more liquidity and improve the efficiency of the current management.

To tackle this dual problem, REIT comes into the picture. What mutual fund are to equities and debt, REIT is to real estate assets. It brings liquidity to the real estate sector.

Like in case of equities, the recent move of SEBI of reducing the lot size of trading from INR 1 lac to INR 50,000 will increase retail participation amongst people. Similarly, the minimum investment has been bought down from 800 to 200 units under REIT. Additionally, further regulations enabling capital infusion for REITs will help in its growth.

Other benefits of REITs as investment vehicle include exemption of tax on dividends by REITS from SPV and recognition of entities as special purpose vehicles.



Internationally, the portion of REITs in the general real estate market-capitalisation is very huge. In 2019, US REITs market-cap was 96 percent of the entire market-cap. in Singapore, Japan and Malaysia, the number was at 55%, 51% and 42% respectively. However, in India, the portion of REITs was just 17% with Embassy being the only recorded REIT. The recent news of Mindspace Business Park issue, this number is anticipated to increase to 29% of the total value.

Due to improved investment management and superior quality management of the fund it has been observed that REIT have outperformed sectoral indices such as the S&P BSE Realty Index and the BSE India Infrastructure Index. The expected return from the REIT investments ranges from 8-14% post adjusting management fees.

Offering value added services to all the parties including sponsor of fund, investor and the property developer REIT brings much needed efficiency in the real estate system. As a mandate, REITs are supposed to provide almost 90% of its earnings from the assets earned to its investors. This ensures that investors are promised continuous stream of income. Given, the commercial nature of these properties the leases are of longer tenure (with annual rent escalation clauses) lowering down investor's risk.

The type of assets covered in REITs also determine the problem REITs are trying to solve. Given, REITs are traded in the exchange market providing sufficient demand and supply for the products. The income from REITs is derived from regular income capital gain from the property. It allows a small investor to be property owner and earn income from it without having to invest the entire amount in the property.

Developing information on the REITs will guarantee agreeableness and progressive increment of retail interest for layman. The instrument will empower retail investors to take interest in growth and open attitude towards commercial business land space.

Even though in India, Embassy Office Park was first India's first commercial REIT, there lies much scope in residential projects that can benefit from the structure of REIT. The residential market is highly unorganized and fragmented that aggregation of the property owners is cumbersome task. However,

given the success of residential especially multifamily properties of US it can open door for possible REITs for apartments tycoons in India such as DLF, Raheja. Currently, these residential developers rely on selling properties to fund their working capital needs. The other property types including office, warehouse, retail and healthcare facilities provide better avenue given the consolidated market for developers. Since, REITs are in the nascent stage India, firstly these avenues should be targeted.



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FINANCIAL INDEPENDENCE, RETIRE EARLY (FIRE)

At eighteen, I was asked to choose between a career either in the world of business or literature. I couldn't help wonder if there could be time for both. Wouldn't it be great if I could retire around forty, not having to worry about living expenses, move to a quaint Eastern European town, open a bookstore and write for the rest of the time?

When I ran the idea by my father, he told me it sounded terrific as long as I picked business. He also advised me to read a little less fiction. He wasn't very impressed when two years later, I introduced him to FIRE (Financial Independence, Retire Early) - a movement spearheaded by a new wave of youngsters worldwide.

Financial Independence, Early Retirement is a movement dedicated to a program of extreme savings and investments that enable its proponents to retire far earlier than traditional budgets and retirement plans allow-sometime between your 30s and 40s. The crux is simple: keep your expenses extremely low and keep raising your income.

At the end of this process, the goal is simply to reach a point where one doesn't have to work a full-time job if they don't want to. Exploring a different field, taking up a part-time job, or stopping work altogether-all, the alternatives are open. If your destination instead is to live the rest of your life as a luxurious vacation, FIRE's not the bus you want to catch. Frugality is at the heart of the movement.

Proponents of FIRE start by sticking to traditional employment for several years, saving around 70% of their annual income. Once savings exceed about 30 times their annual expenses, they quit their jobs or completely retire from any form of employment.

Small withdrawals from savings-between 3% to 4% annually are used to manage living expenses.

There are many variations to FIRE depending on the choice of lifestyle one wants to opt for.

LeanFIRE - As the name suggests, the focus is on adopting a lean lifestyle-save up enough to retire as early as possible. One lives on the bare minimum, saving the rest, and post-retirement lifestyle is also modest. Because of the extreme savings and the relatively lower post-retirement requirement, it's usually possible to achieve this very early.

FatFIRE - FatFIRE allows you to indulge more. The emphasis is on not making too many lifestyle sacrifices in current spending or retirement. Hence, the savings requirement here is relatively higher, thus taking longer to achieve one's goals.

BaristaFIRE - Here, after retiring from one's main job early, the idea is to work part-time, freelance, or pursue a dream career that is not as well paid. The goal is to be able to work for pleasure rather than to earn.

A good start in working towards FIRE is to chalk out a plan based on one's goals. It involves determining how one's expenses and income will change over time, what standard of living one wants after retirement, and how much it would cost. Is there a need to raise income, is the retirement going to be complete or partial, etc. By the end of this plan, the goal is to arrive at a number for the retirement fund-and the annual savings that would allow one to reach there within the desired time. This plan needs to be continuously monitored and updated upon any changes on the way.

The next step would be to prepare a comprehensive budget detailing regular expenditures and extraordinary expenses. The goal here is to identify areas where one can cut back on expenses-switching to more efficient ways of consuming help-fewer dine-outs and more modest holidays.

Debt can be a massive setback to retirement goals. Setting up goal-based funds and emergency funds for future lump sum expenses to avoid debt is critical. Next, there must be a dedicated approach towards increasing one's savings. Standard practice for those new to savings is to start by setting up modest saving goals and gradually increasing them to align with the retirement fund. Additionally, increasing income is also a great goal to set here-either via career advancements or finding additional revenue sources. The final step is to invest a percentage of savings to have a passive income.

There are certain risks associated with FIRE too. For instance, post-pandemic, numerous people had to come out of early retirement because of a drastic dip in their portfolios caused by the stock market collapse-their 3-4% withdrawals weren't sustainable anymore. There's also a certain exclusivity angle to the retire early part of fire-i.e., unless one has a very high income, the requirements for retirement do fall short.

Notwithstanding, financial independence is the reason most proponents stick to FIRE. The idea of not working just because one has to and building healthy personal finance habits attracts many to the movement. It's time Gen X found out. Forty is the new sixty.

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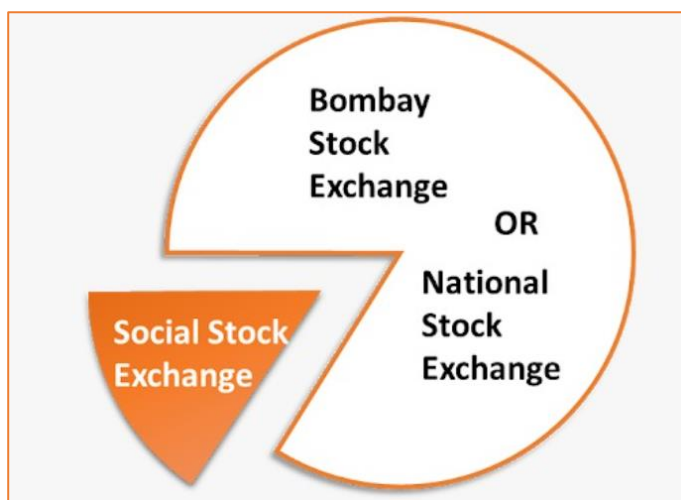
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SOCIAL STOCK EXCHANGES – GROOMING NEW CULTURE OR HURRIED DECISION?



Finance Minister Nirmala Sitharaman had proposed the launch of the Social Stock Exchange in India in the Budget speech in 2019-20. This would mark a vital step whereby India will be focused on the long-pending fund-raising need of the social sector and would take it closer to achieving the sustainable development goals in the next five years.

While the Social Stock Exchange is a new concept for India, countries such as the UK, Canada, and Brazil already have an operational Social Stock Exchange. A Social Stock Exchange is like a regular stock exchange except that here, both for-profit and not for profit enterprises having social motive can list themselves. This helps them tap private capital and raise funds for social purposes.

Listing on a Social Stock Exchange can be a means to recognize the social impact generated in addition to the return on stocks calculated through traditional parameters such as profitability. A Social Stock Exchange will reward the ability and effort of social enterprises for investing in social purposes and having a social motive as their primary objective by

enabling them to raise funds from the public through an organized platform. Such firms are traditionally dependent on donations and impact investors. By recognizing credentials, a Social Stock Exchange facilitates companies to identify and reach out to the right set of investors and enable the impact investors and other individuals wanting to contribute to social organizations to make their desired investments. Thus, a Social Stock Exchange is expected to serve both the organizations and investors by creating an enabling ecosystem. If successful, it can bolster India's impact investing ecosystem and improve access to the large pool of capital by social enterprises.

In June 2020, SEBI constituted a technical group under the guidance of Harsh Kumar Bhanwala, former chair of NABARD. A working paper for Social Stock Exchange in India was laid out. As per the SEBI Working Paper, fund-raising is proposed through instruments such as social venture funds, zero-coupon-zero-principal bonds, and mutual funds. However, there is a need for depth and breadth regarding the range of available options and implications.

On the demand side, the ecosystem needs a clear definition of social enterprise, a mechanism of establishing credentials, parameters, and metrics for measuring and reporting social impact. On the supply side, a set of guidelines on funding approaches and financial instruments, active participants, a regulator, and a regulatory framework are required. Strict criteria of recognition and supervision of adherence to disclosure norms, reporting mechanism showing utilization of funds and well-defined investor protection norms are necessary to ensure no one misguides or takes undue advantage of the platform.

At present, in India, there are only six enterprises identified as social enterprises. We have only 6-8 impact investors. It would not be easy to provide liquidity to the Social Stock Exchange with such a small base. On the other hand, in the world, at present, there are 62 definitions of social enterprises. Therefore, there is a possibility of excessive claims being made by firms, given that every organization, whether for profit or not for profit, does social good and that there is neither a consensus on social impact nor an objective metric of measuring social impact. With this backdrop, before launching a social enterprise, it is imperative to address these fundamental aspects. Like credit rating agencies that rate financial instruments and companies, we need intermediaries to rate social enterprises independently. Also, since the information is dispersed and very few NGOs are registered with existing recognized information repositories such as GuideStar, BSE Samman, etc., there is a need to expand their reach and launch more intermediaries. To identify and measure social impact, existing metrics such as B-Impact score, Social return on investment, Buffet's Impact Rate of Return, IRIS, GIIRS can be adopted by customizing them to the Indian context.

Given the lack of development in the Social Stock Exchange ecosystem, active secondary market and

price discovery would be significant challenges associated with Social Stock Exchange. This coupled with high transaction costs given the institutional effort required in due diligence, monitoring, and subsequent impact evaluation can make the Social Stock Exchange investments unattractive. Many of the international experiments in Social Stock Exchange have seen muted success and have remained limited to being "directory" programmes. Social Stock Exchange in the UK is one such example.

Thus, we can say a successful Social Stock Exchange will present an opportunity for India to be a torchbearer. However, a hasty launch of Social Stock Exchange would be bogged down by its obstacles. India would miss an excellent opportunity to bolster social activities by providing access to funds to social enterprises. India needs to set the stage firmly before the show is launched!



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THE FAULT IN OUR FUNDS

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The Story

The Mutual Fund industry operates on a simple premise.

They will tell you regular investors have little know-how about the complexities inherent in stock markets. They'll convince you that you'll always be at a disadvantage since you don't have access to information that could help you optimise your choices. They'll even contest that you cannot interpret this information even if you somehow managed to get your hands on it. Instead, a better approach is to simply let them manage it for you.

They'll take your money, divert it to a common pool — with funds mobilized from other investors like you and they'll invest this corpus in handpicked stocks to offer you outsized returns. All this for a small fee. It's a win-win for everyone, they claim.

And truth be told, they do have a point. Investing in stocks is a ridiculously tedious affair and a mutual fund is a pretty decent alternative.

But not everybody wants a piece of the Indian stock market.

The ups and downs can be too much. It's never a good feeling to hear that your fund is down 10% because the stock markets continue to tumble. So for the faint-hearted, they offer another alternative — a debt mutual fund.

This time they'll use your money to lend to corporates and governments, instead of buying stocks from select companies. In return, the

corporate will promise to pay the fund house the entire principal (within a specified time frame) and a fixed sum on top. The contract agreement is called a bond. The time frame — Maturity Period. And the fixed return on top is called the yield.

You just finished a mini-course on the Mutual Fund Industry and you can probably give yourself a pat on the back right now.

Anyway, these debt mutual funds have a big advantage. Unlike equity mutual funds, where the fund house is exposed to the swings of the market, debt mutual funds offer more consistent returns. Ergo, once a fund house invests in a bond, the corporate is liable to pay back the principal and the yield, in full, failing which the fund house can drag the corporate to bankruptcy court. So most corporates are likely to honour their obligations.

However, there is a problem. What happens if you ask the fund house to pay you back right now, and they've already invested the entire common pool (of funds) in corporate and government bonds? I mean, the fund-house can't go to one of these corporates and ask them to pay back the debt. At least, not until the debt is due (maturity date). And if they still tried to push, they'd be in violation of the contract.

So how does a fund house honour your redemption request whilst also staying true to the corporates?

Two words — Cash Buffers.

You have to remember that while there may be people who will want to redeem their funds, there's also a bunch of new investors looking to park their money here.

So the fund house will always have some spare cash to pay out existing investors, no matter what.

And besides, each time you invest in a mutual fund, they also set aside a small portion of your investment in cash, just in case.

Now obviously this won't be much. But when they start doing it with thousands of investors in tandem, the small contributions add up and they'll have a sizeable cash reserve to meet individual redemption requests.

But deciding on the exact sum is much like walking the tightrope. If the fund house sets aside too little, there's a very real risk of failing to meet a redemption request. They set aside too much and they'll have a lot of idle cash sitting around offering them very little in return.

Most fund managers rely on experience and intuition to navigate through this conundrum. But the future is perilous. You never know what's going to happen tomorrow. And to bet on experience and intuition might not necessarily suffice in a high stakes game of cat and mouse. So, they deploy another strategy—Laddering.

When push comes to shove, get a ladder

In order to ensure they have a steady supply of cash coming in at all times, the fund house often invests in bonds with different maturity dates. Some bonds that payout in 1 month. Some bonds that payout in 2 months. Some bonds that payout the next year. So every few days, the fund house will have a bit of money coming in and they can choose to deploy it in any way they wish. They could either use it to buy more bonds and make some extra money on top or they could simply use it to honour your withdrawal request.

But, ladders are only good so long as the ground beneath stays solid.

Unfortunately, during times of crisis, that's not always the case. When redemption requests start flooding in from all corners the fund house will have to resort to drastic measures.

They'll have to start selling the one thing they own — the bonds.

The hope here is to sell the bonds and muster some much-needed cash. When it doesn't sell quick, they'll offer a discount. Obviously, this means taking a hit on the performance. While once the fund house could offer investors a consistent compounded return of 8%, they can only offer a measly 5% now.

But suppose that doesn't cut it either, the fund house will finally start borrowing money in a desperate bid to keep honouring the redemptions.

And all of this played out in rather spectacular fashion as the Franklin Debt Saga began to unravel. So hold on to your papers, because things are going to get rough.

Turbulence Ahead

Franklin Templeton has always had a reputation for being one of the best in the business — especially with Debt Mutual Funds. And they've managed to beat their peers largely by resorting to a risky approach that has paid off in spades. Whilst other debt funds chose to lend to corporates and governments who are guaranteed to pay back in full, Franklin has often chosen to lend a bulk of its monies to institutions that are a tad bit risky.

And to compensate for the risk associated with lending to a financially vulnerable institution, Franklin often demands a higher yield (return).

But here's the thing. Despite the approach, the fund managers at Franklin have done such a stellar job of managing risk all these years, that most investors were convinced there's almost no problem here at all.

This specter of safety had truly taken over all mind and matter and it's also why so many people (and businesses) chose to invest their hard-earned money with Franklin.

But this time it's different. Risks are magnified. And even great fund managers can't keep eluding fate. The pandemic is upon us and it's about to make landfall.

First, it hits the investors—institutions that chose to park their idle cash with Franklin hoping to earn some extra return on top. With the lockdown in place, businesses have no avenue to keep making money. And as cashflows start running out, they have no choice but to redeem their funds. Soon enough, mom and pop investors (like you and I) join the bandwagon too.

And Franklin immediately starts seeing a surge in redemption requests. On any other day, this wouldn't be a problem. But right now, there aren't a lot of people looking to invest in mutual funds. Meaning there's a ton of money going out and not a lot coming in.

Franklin, however, has to honour its commitment. The promise must be kept. So, it starts dipping into the cash reserves, and soon, even the cash buffers start running thin.

Fortunately, the ladder offers some respite. Bonds that were due to mature in March and April 2020 start paying out. And Franklin somehow keeps honouring the redemption requests. Then, another wave of withdrawals. And this time, Franklin has no choice but to sell the bonds in the open market.

But everybody's holding on to their purse strings. Cash is precious. Nobody wants the bonds. At least,

not the risky ones (where you're talking about corporates who might not be able pay back considering the extraordinary circumstances).

What does Franklin do now?

Well, they start selling anything they can, anything that will sell. But the only thing that'll sell now are bonds that will almost inevitably pay out—the AAA-rated gold standard stuff.

And this is deeply problematic. Because if they keep with this little program and sell all the good bonds they hold, they will soon be left with a bunch of junk bonds that might never yield anything, not even the principal. The whole fund might be worthless.

What happens to the remaining investors then? Do they get nothing? Not a single penny?

That can't happen. So Franklin stops the selling and starts borrowing money to keep honouring redemptions, in a last ditch effort to save the funds. All the while hoping that the tide will turn. But the tide won't turn. There's no turning back now.

FRANKLIN HAS TO WIND DOWN THE FUNDS NOW.

Stop all inflows. Stop all outflows. Save the good bonds you own. Hope the risky bonds payout. And maybe, when maturity is due, they can start paying investors what's left, if and when the corporates pay back.

Remarkable Scenes!!!

Truly Remarkable!!!

By **Finshots**,

A platform for daily financial news

BUDGET FY 22 ANALYSIS

The Budget 2021 can be summarised as an investment-oriented budget, as the Government plans to liberate the budgeted fiscal deficit to a historic 6.8% and invest the same in the Indian

Infrastructure. Finance Minister Nirmala Sitharaman presented her third Budget, based on six pillars, which were:



A) Health and Wellbeing:

a) Health

With the over looming pandemic, a significant boost has been seen in this Budget for health infrastructure. The Government has allocated Rs. 2.23 lakh crore, a 137% increase compared to the previous Budget. Rs. 64,180 crores have been earmarked for six years for the newly announced PM AtmaNirbhar Swasth Bharat Yojna to develop primary, secondary, and tertiary care Health Systems and strengthen existing national institutions and create new institutions, to cater to detection and cure of new and emerging diseases. This will be in addition to the National Health Mission. The primary interventions in the Budget are as follows:

- Supporting Health and Wellness Centres, strengthening the National Centre for Disease Control, expanding the Integrated Health Information Portal
- Setting up Integrated Public Health Labs, Critical care Hospital Blocks.

Provisions of Rs. 35,000 crores have been made for Covid-19 vaccine, and further funds would be made available if required.

b) Wellbeing:

The FM announced Jal Jeevan Mission (Urban) to provide universal water supply to over 2.3 crore families with a total outlay of Rs. 2.87 lakh crore over the next 5 years. Along with this, Urban Swachh Bharat Mission will be implemented with Rs. 1.41 lakh crore over the next 5 years. To curb the pollution an allocation of Rs. 2217 crore was made for 42 urban centres having a population of a million or above. A voluntary vehicle scrapping policy to phase out old and unfit vehicles was also announced. Fitness tests have been proposed in automated fitness centres after 20 years in case of personal vehicles, and after 15 years in case of commercial vehicles.

c) Effect on Markets:

Auto Industry (NSE)	%change
Ashok Leyland	+8.93%
Tata Motors	+3.70%
M&M	+5.58%
Eicher Motors	+2.38%
TVS Motors	+2.85%
Bajaj Motors	+1.71%
Maruti Suzuki	+1.86%
Hero Motocorp	+1.24%

Medical & Pharma (BSE)	%Change
Biocon	+1.34%
Cadila	+0.84%
Cipla	-1.58%
Dr. Reddy's Laboratories	-3.26%
Apollo Hospital	+3.53%
Lupin	-1.70%
Sun Pharma	-0.99%
Torrent Pharma	-4.41%

B) Physical and Financial Capital and Infrastructure:

a) Physical Infrastructure:

Under the AatmaNirbhar Bharat, the Government has announced PLI schemes in 13 sectors committing Rs. 1.97 lakh crore over the next 5 years. For Textile industry, 7 Mega Investment Textiles Parks will be launched over the next 3 years under PLI. Rs. 1.1 lakh crore has been allocated to 217 projects under some key Industries.

A "National Monetization Pipeline" of potential Brownfield infrastructure assets will be launched. An Asset Monetization dashboard will also be created for tracking the progress and to provide visibility to investors. InvIT has been sponsored to NHAI (National Highway Authority of India) and PGCIL (Power Grid Corporation of India) to attract investors. Railways will monetise Dedicated Freight Corridor assets for operations and maintenance, after commissioning. Next lot of airports will be monetised for operation and management concession. Some of the other core infrastructure assets to be rolled out under Asset Monetization are NHAI Operational Toll Roads; Oil Gas Pipelines of GAIL, IOCL, HPCL; AAI Airports in Tier -2&3 cities.

By March 2022, the Government plans on awarding 8,500 km of road under the Bharatmala Pariyojna and additional 11,000 km of the national highway corridor. Road Transport Ministry gets Rs. 1.18 lakh

Crores. Rs. 1.1 lakh Crores have been allocated to Railways. Western and Eastern Dedicated Freight Corridors will be completed by June 2022. Rs. 18000 crores have been deployed to improve the public bus transport, and 'MetroLite' and 'MetroNeo' technology will be deployed to Tier-2 and 3 cities.

A scheme to promote flagging of merchant ships in India will be launched by providing subsidy support to Indian shipping companies in global tenders floated by Ministries and CPSEs. An amount of Rs. 1624 crore will be provided over 5 years.

Ujjwala Scheme extended to cover 1 crore more beneficiaries. A 100 more districts would be covered in the next 3 years to City Gas Distribution network. A gas pipeline project to be established in Jammu & Kashmir.

A total of Rs. 5.54 lakh Crores is provided for the Capital Expenditure.

b) Financial Capital and Infrastructure:

To finance the infrastructure sector, FM announced a Development Financial Institution to provide long term debt financing. Rs. 20,000 crores would be invested as a capital with an aim to have a lending portfolio of at least Rs. 5 lakh crores in 3 years.

The Government has shown support for the development of GIFT City as a world-class Fin-Tech Hub. The limit of FDI has been raised from 49% to 74% in the Insurance industry, allowing foreign ownership. The Finance Minister said several transactions namely BPCL, Air India, Shipping Corporation of India, CONCOR, IDBI Bank, BEML, and Pawan Hans, would be completed in 2021-22. Other than IDBI, 2 more Public Sector banks and 1 General Insurance company would be privatised in 2021-22. Also, the IPO of LIC is expected to be released in 2021-22. The Government aims to raise Rs. 1.75 lakh crores through divestment.

c) Effect on Markets:

Banking and Insurance (NSE)	%change
IndusInd Bank	+12.99%
ICICI Bank	+9.38%
SBI	+8.98%
RBL Bank	+9.68%
Axis Bank	+6.67%
Kotak Bank	+4.13%
IDFC First Bank	+1.75%
GIC	+4.64%

Infrastructure (NSE)	%Change
DLF	+8.96%
Larsen & Toubro	+7.66%
Ultratech Cement	+6.69%
Grasim Industries	+6.19%
Adani Ports SEZ	+5.53%
Tata Power	+4.58%
ONGC	+2.07%
IOCL	+0.00%

C) Inclusive Development for Aspirational India

The MSP regime has undergone a change to assure price that is at least 1.5 times the cost of production across all commodities. Agricultural credit target has been set at Rs. 16.5 lakh crores. The allocation to the Rural Infrastructure Development Fund increased from Rs. 30,000 crores to Rs. 40,000 crores. With a corpus of Rs.5,000 crore, the Micro Irrigation Fund has been created under NABARD will be doubled. Five principal fishing harbours – Kochi, Chennai, Visakhapatnam, Paradip, and Petuaghat – will be developed as economic activity hubs. Government has launched the One Nation One Ration Card scheme through which beneficiaries can claim their rations anywhere in the country. Women will be allowed to work in all categories and also in the night-shifts with adequate protection. The Government has provided Rs. 15,700 crores to MSME sector.

D) Reinvigorating Human Capital

The FM has announced 100 new Sainik schools in partnership with NGOs, private schools and states. A

proposal has been made to establish a central university in Ladakh. The Government has set a target of establishing 750 Eklavya model residential schools in tribal areas with an increase in each such school's unit cost from Rs. 20 crores to Rs. 38 crores, and for hilly and difficult areas, to Rs. 48 crores.

E) Innovation and R&D

Over the next five year, the Government plans to outlay Rs. 50,000 crores through National Research Foundation to strengthen research ecosystem in the country. The Government will undertake a new initiative – National Language Translation Mission (NTLM). This will enable the wealth of governance-and-policy related knowledge on the Internet being made available in major Indian languages. As part of the Gaganyaan mission activities, four Indian astronauts are trained on Generic Space Flight aspects, in Russia. The first unmanned launch is slated for December 2021.

F) Minimum Government, Maximum Governance

India will conduct its first-ever digital census allotting Rs. 3768 crores for same. The Finance Minister said the fiscal deficit in RE 2020-21 is pegged at 9.5% of GDP and it has been funded through Government borrowings, multilateral borrowings, Small Saving Funds and short-term borrowings. the Government plan to continue the path of fiscal consolidation and intend to reach a fiscal deficit level below 4.5% of GDP by 2025-2026 with a fairly steady decline over the period.

DIRECT AND INDIRECT TAX PROPOSALS

Direct Tax

The Government has proposed to reduce the filing burden on senior citizens above the age of 75. They would not be required to file ITR if only pension income and interest income is there in the previous year. Reopening of Assessments period reduced from 6 years to 3 years except in serious tax evasion cases.

There has been a proposal to constitute 'Dispute Resolution Committee' for assesses having Taxable income below 50 lakhs and disputed income below 10 lakhs. A National Faceless Income Tax Appellate Tribunal Centre shall be established. To facilitate the NRIs, a proposal to notify rules has been made to remove double taxation hardship. The tax audit requirement has been increased from 5 crores to 10 crores for businesses having 95% digitised transactions.

The Government has decided to give relief on advance tax liability on dividend income to help the investors. The FM also proposes to provide pre-fill the Salary, TDS, Interest, Dividend and Capital gains on listed securities to make it easy to file returns. As an Incentive to startups, the Government proposes to extend the tax holiday exemption for one more year. To promote the International Financial Services Centre (IFSC) in GIFT City, the Budget proposes more tax incentives.

Indirect Tax

Record collection of Rs. 1.19 lakh crore has been collected as GST in January 2021. The Government has deployed deep analytics and artificial intelligence to identify tax evaders and launch special drives against them.

Stressing on the need to rationalise duty on raw material inputs to man-made textile, the Finance Minister announced bringing nylon chain on par with polyester and other man-made fibres. The Finance Minister announced the withdrawal of a few exemptions on parts of chargers and sub-parts of mobile phones further some parts of mobiles will move from "NIL" rate to a moderate 2.5 per cent. The Minister also announced rationalisation of custom duty on gold and silver. The Finance Minister announced raising custom duty on cotton, raw silk and silk yarn to benefit farmers.

By **FinClub**,
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