M.L.Dahanukar College of Commerce

THE BAF TIMES

ISSUE III | 18 DEC 2021 | VOL III

FEATURES

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Weekly updates about the finance world

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Increase your finance knowledge while having fun

FOREWORD

Idea Behind This Weekly Newsletter

Being a Commerce College, students are expected to know the changes in the business world. This weekly newsletter will help the students get acquainted with a glimpse of what happened in the week gone by. It will also have insights into various business and commerce related updates which will help you gain in-depth knowledge. Make it a point to read each and every article in this issue and stay updated so that you don't get outdated.

- DR. D. M. Doke, Principal

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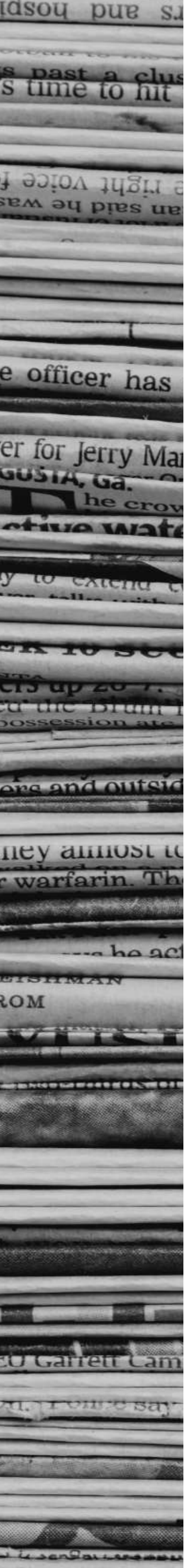
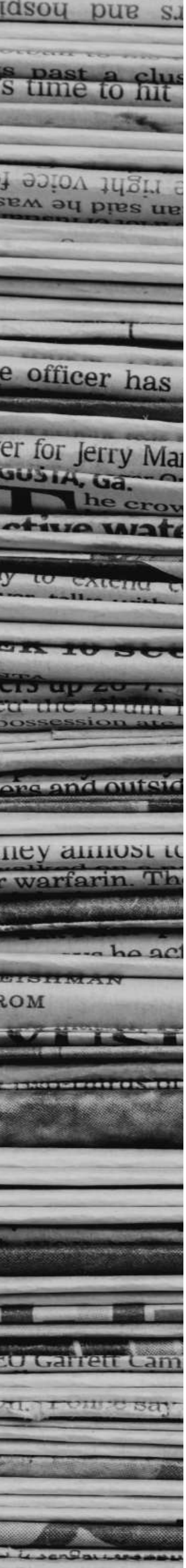


AAJ KI KHABAR

- SEBI lays procedure for undertaking co-investment portfolio management service
- Entities to quote 20-digit LEI (Legal Entity Identifier Number) for cross-border transactions from Oct 2022
- 3.Taxman rejects exemption on interest income of several housing societies
- Paytm Payments Bank gets scheduled payments bank status
- Mukesh Ambani's RIL, partner looking to buy bankrupt textile company Sintex
- Government unlikely to announce capital infusion for PSU banks in Budget 2022-23
- Asian Development Bank approves Rs 2,645-crore loan to improve urban services in India
- Rs 2,000 notes now 1.75% of total banknotes in circulation; down from 3.27% in March 2018



AAJ KI KHABAR

- Paytm says GMV in first two months of this quarter up 129%
- Bank of Maharashtra reduces home and car loans, but expects least impact on NIM
- India has 4th largest foreign exchange reserves in the world
- Flipkart in talks to lead $100-million round in Ninjacart
- Micro finance institutions want Rs 3 lakh as loan cut-off
- Fino Payments Bank eyes 30-35 pc revenue growth over long term: MD Rishi Gupta
- Portfolio Management Services (PMS) and Alternative Investment Fund (AIF) asset base set to cross Rs 50 lakh cr in 10 yrs

STRESS INHERENT IN THE GREAT FINANCIAL CHASE- DARK LININGS IN THE SILVER CLOUD

Dr. Sudha Subramaniam
Core Faculty,
M.L.Dahanukar College of Commerce

As Financial Intermediaries are arbitraging and chasing higher returns, the surplus liquidity in the money markets has fuelled increased issuance of commercial papers. The share of non-banking financial companies in total commercial paper issuances increased to 43.2% in H1 of 2021-22 from 21.9% in the corresponding period of the previous year. The flip side is also that simultaneously a host of IPOs were launched and the overall share of Corporates in Commercial paper moderated to 46.2% from 64.9%. NBFCs have been simultaneously mobilising resources for investment in IPOs through commercial paper issuance. During H1 2021-22, Commercial Paper issuance increased to 10.1 lakh crore!!

With Banks reluctant to give loans and instead choosing to invest in short-term commercial papers, companies in the NBFC sector made smart moves, raising three months money at even cheaper rates than the overnight repo rate of the RBI. Bonds on the other hand have witnessed lack-lustre demand, especially in case of those not receiving a high rating. Strong Liquidity intervention by the RBI on the one hand and the trading of Treasury Bill, CP and Certificates of Deposit below the policy rate in the secondary market sound futuristic volatility and financial mayhem.

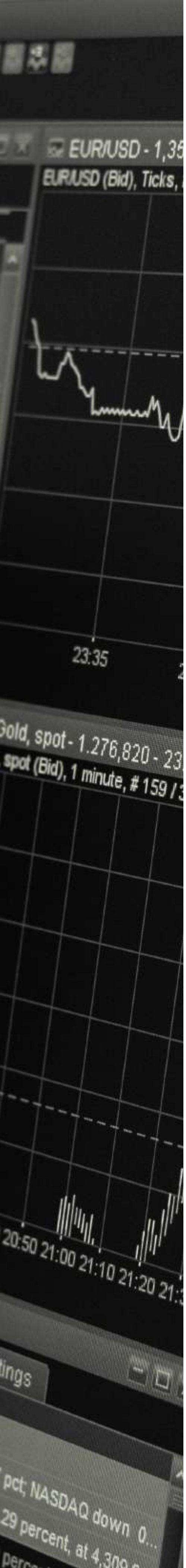
In June 2019, Dewan Housing Finance Ltd., defaulted on its Commercial Paper repayment. In September 2020, Future Enterprises Ltd., defaulted on its debt repayment towards commercial paper on a principal amount of Rs.90 crores! As Financial Market Stress looms over the global horizon, India has been witnessing a shift in demand in financial instruments and the foreseeable need for insulating with certain immediate capping.

According to RBI data, the monthly fresh issuance of CP jumped over 37% year-on-year to Rs.1.71 lakh crore in June 2021. In March 2021 CP issue clocked a record high of Rs.2.24 lakh crores! In the first fortnight of November 2021, Indian firms issued CPs worth Rs.1.75 lakh crore. Latest RBI data indicates CPs outstanding amounting to Rs.4.5 lakh crore! With a substantial amount of the funds being used to fund IPOs, and with the borrowing cap on NBFCs for IPO funding applicable only after April 2022, there is no restriction on the amount they can invest now.

What we are witnessing is the creation of a huge bubble. If it bursts, the markets can come crashing and the related impact will send the bulls fleeing and the bears dancing. With interest rates remaining softer for higher rated borrowers, the scenario banks heavily on rating.

With SIPs roping in sizeable funds, shifts in demand and creation of a strong growth base may be possible based on productivity, increased GDP and realistic growth. Between June 2020 and October 2021, over Rs.75000 crores has been disbursed to the MSME sector. The optimism is based on productivity. Here again the pandemic detracts from certain futuristic predictions.

So we have low-risk instruments turning risky and IPOs rather than short-term projects funding as the Plan of Action that took place.
Moreover, the risk and uncertainty in the global market and related impact assessment, the instability of the money flow patterns needs to be analysed from the cash and fund flow perspective. The money multiplier effect has shrunk and indeed the wait-and-watch policy seems to be the Hobson's choice in the light of things.



UAE TO CHANGE THEIR OFFICIAL WORKING DAYS

Ms. Akshaya Rajgopalan
Alumni,
M.L.Dahanukar College of Commerce

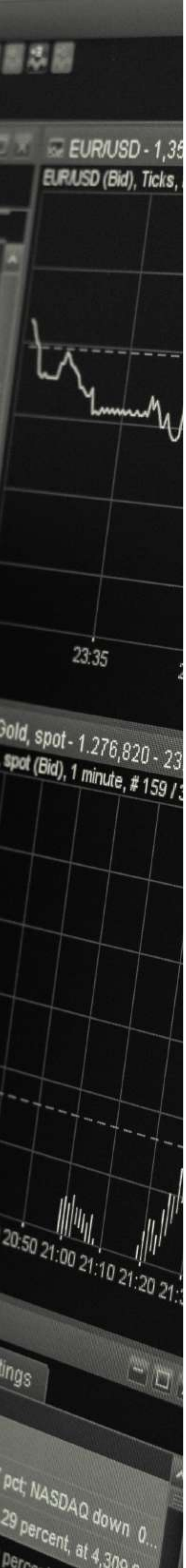
The Gulf tourism hub, United Arab Emirates has decided to change their official workdays and timings to align with their global counterparts. Working Monday to Friday may sound quite normal for us but this isn't the case in most of the Gulf countries.

How is it usually there then?
Friday being a sacred day of worship for Muslims, most Gulf countries have an official leave on Fridays. This resulted in their workweek starting on Sundays and ending on Thursdays, with Saturdays being an optional off.

How will it be now?
Under the new rule, the workdays would start from Monday and end on Mid Friday. The working hours on Fridays would end at noon, ahead of Friday prayers. Saturday and Sunday will be weekend holidays. The country's five-day workweek will now change to four and a half days with effect from January 1, 2022.

Reason for the transition
The UAE government attempts to make its economy more attractive to foreign investors competing with its neighboring country Saudi Arabia.

How will it benefit the UAE economy?
The rule is fetched in to bring the country's markets close to global markets. This move is expected to bring a lift to UAE's economy by facilitating stronger international business links and enhancing global competitiveness by attracting opportunities for thousands of UAE-based and MNCs.



How will it benefit the employees?
This move will bring more work-life balance for employees, which will further boost their productivity. Employees will also have an option to work from home.

With this announcement, UAE will be the first country to introduce a shorter working week less than the usual 5 day week. Will any other country follow the suit is something to observe.

IMPACT OF GST ON INSURANCE SECTOR

Mr. Rahul Jaiswal
M.S. College of Arts, Science, Commerce and BMS,
Kausa, Mumbra

- Term Plan

Term plans purely offer death benefit and are termed as pure risk protection plans. In such plans sum assured is paid to the nominee, if insured dies during the Term of the policy. And if policyholder survives the policy term, he has to forgo the entire premiumas no maturity value is paid in term plans, apart from the term plans with a return of premium (TROP) option.
The premium component of a term plan comprises the majority of the risk element to provide insured a risk cover throughout the tenure of the policy. Earlier it was service tax of 15 % is imposed on the premium cost of the term plans. With the implementation of GST, the tax is 18 % in the first year and also on renewal premium from April 2017. This means the premium will get costlier by 3 % or 300 basis points.

- Endowment Plans

Endowment plans or traditional insurance savings plans offers both death and maturity benefit, whichever occurs first. Earlier, endowment plans attracted a service tax of 3.75 % on the premium in the first year of the policy and are expected to rise to 4.5 % inthe first year under the new tax regime. As of now 1.88 % of the service tax is levied on endowment plan'spremium for the second year which is now at present 2.25 % from the second year onwards after the implementation of GST.

- ULIP

Unit Linked Insurance Plans (ULIPs) also offer dual benefit of insurance and investment. Earlier, service tax of 3.5 % was levied on protection part of ULIPs in the first year and 1.75 % from second year onwards. This wouldgo up to 4.5 % in the first year and 2.25 % from second year onwards. Health Insurance Plan Currently, health plan premium attracts a service tax of 15 % on its premium cost. With the introduction and implementation of the GST, the cost of purchasing the health insurance has become expensive and now it is 18 % on premium from April 2017.

- Motor Insurance

Motor insurance premium attracts the service tax of 15 % at earlier times, but now it is 18 % from April 2017, if the rate is fixed up to this specified percentage mark. But here the question arises that hike in tax should impact your decision of buying insurance or not. It is true that GST will make buying insurance little expensive but it is very important for an individual to secure his life, especially when the individual is the sole bread-earner of the family. Life insurance plans specifically term insurance plans are the actual life insurance plans which cover you and financially compensates your family in your absence.

INDIA'S RETAIL INFLATION EXPECTED TO RISE UPTO BY 5.1% IN DECEMBER

Ms. Dipti Jadhav,
SYBAF

The change in the price index over a period of time is referred to as CPI-based inflation, or retail inflation. If there is inflation (when goods and services cost more) the CPI will rise over a period of time. If the CPI drops, that means there is deflation, or a steady reduction in the prices of goods and services.

As on Monday, the November's retail inflation was declared by 4.91% as per the data released by the National Statistics Office (NSO). The inflation as measured by the Consumer Price Index (CPI) remains at the upper limit of the Reserve Bank of India's (RBI) target range, due to a sharp rise in prices of fruits and vegetables. Remarkably, this is the fifth consecutive month that the retail inflation has remained within the RBI's target band of 2 percent to 6 percent.

While maintaining status quo on repo rates, RBI governor Shaktikanta Das said that, "The inflation trajectory is likely to be in line with our earlier projections, and price pressures may persist in the immediate term. Vegetable prices are expected to see a seasonal correction with winter arrivals in view of bright prospects for the rabi crop. Cost-push pressures continue to effect on core inflation, though their pass-through may remain muted due to the slack in the economy."

Taking into consideration all these factors, CPI inflation is projected at 5.3 percent for 2021-22, he said adding that it is expected to be at 5.1 percent in the December quarter of the current fiscal and at 5.7 percent in March quarter of 2021-22.

APOLOGY

The Article ‘Comparative Study between Mutual Funds, PMS and PAS’ published in Volume III, Issue II on 11th December 2021 was written by Mr. Gautam Jain, Alumni of the college. The credits were inadvertently given to another author. The Editor deeply regrets the error.
The article is republished below:

COMPARATIVE STUDY BETWEEN MUTUAL FUNDS, PMS & PAS

Mr. Gautam Jain,
Alumni,
M.L.Dahanukar College of Commerce

Despite the common perception that 'millennials' are 'high on risk', millennial prefer fixed deposits over other investment vehicles such as mutual funds and stocks, revealed a recent report by a fintech company. This is very interesting. There can be several reasons for such investment behaviour. Nonetheless, what really gels with the same survey report is that 91 per cent of them make their own financial decision, which means chances are high that they may be in doubt or are oblivious of other financial products that can give them better risk-adjusted returns.

We analysed a range of investment products to demystify them for both novices as well as seasoned investors. Here are the highlights:

Definitions:

- Mutual Funds (MF): These are the companies (trust) that pool money from the public and invests it as per the fund's investment objectives. Every investor can find a fund that suits his or her requirement.

- Portfolio Advisory Services (PAS): These are the companies that give their clients both research and advisory on stocks.

- Portfolio Management Services (PMS): Under this, a company offers an investment portfolio of stocks, debt and other fixed income securities which are managed by a professional fund manager. In the entire report, we have considered the condition of a discretionary PMS, where your portfolio manager takes a decision on your behalf.

Now let us understand how these three options works and weigh them against each other.

1. Approach:
MF: Pooling of funds from individual investors is the essence of this kind of investment model.
PAS: Neither the pooling of funds is done nor clients' portfolio is maintained. Here portfolio advice is provided. Client manages his own investment.
PMS: No pooling of investor funds is allowed. A separate portfolio for every client is to be maintained.
Winner: PAS is a clear winner as it enjoys customisation like PMS without forgoing investors' control over their portfolio.

2. Number of Stocks:
MF: On an average any equity scheme other than 'Focused MF' hold anywhere between 50-60 stocks.
PAS: The number of holdings is limited to 15-20 stocks.
PMS: Mostly it will follow PAS as they too have a focused portfolio.
Winner: PAS & PMS have a tie. The primary reason for more number of stocks in a portfolio is to diversify, however, the research shows that beyond 15-20 stocks, it does not add much to the diversification benefits. PAS and PMS with a limited number of stocks reap the benefit of diversification.

3. Liquidity:
MF: Lock-in period of maximum of 5 years if invested in solution-oriented schemes and lock-in period of maximum of 3 years if invested in ELSS mutual funds. For the rest, there is no lock-in period.
PAS: Highly liquid with no exit load and no lock-in period.
PMS: Here liquidity is high as an investor can withdraw at his or her own discretion in a manner specified under the agreement. However, exit load may be applicable on an early withdrawal.
Winner: PAS, as there is no exit load and an investor, can liquidate his position as and when he requires with minimum impact cost.

4. Customisation:
MF: There is no customisation available when you invest in MF. There are categories under different asset classes such as equity and debt and you have to select any of them depending upon your requirement.
PAS: Highly customizable. You can customise your portfolio that matches your risk-return profile and you are in full control of your portfolio.
PMS: This is similar to PAS, however, once a broader level of agreement is reached between client and portfolio manager, the manager may invest on behalf of the client. Hence, he may lose stock specific control in his portfolio.
Winner: PAS, as the investor remains the captain of the ship with full control and can lead it to the desired destination with the help of advisors.

5. Investment Size:
MF: Investor can invest in select mutual funds with as low as Rs. 100 per month through SIP or minimum lumpsum investment ranges from Rs. 1,000 to Rs. 5,000.
PAS: There is no minimum investment required. The investment amount depends on the investment corpus of the client.
PMS: Every investor is required to make a minimum investment of Rs. 25 lakhs.
Winner: MF as anyone with as little as Rs. 100 can start investing in MF. Even one can start with that amount in PAS, however, the cost dynamics will not work in their favour as they have to pay advisory service charges.

6. Returns Profile:
MF: It will largely depend upon the market and can range between low to high
PAS: Returns will once again depend upon the market and can be medium to high depending upon the portfolio constituents.
PMS: Returns are medium to high.
Winner: PAS and PMS can generate similar returns and hence there is a tie between them.

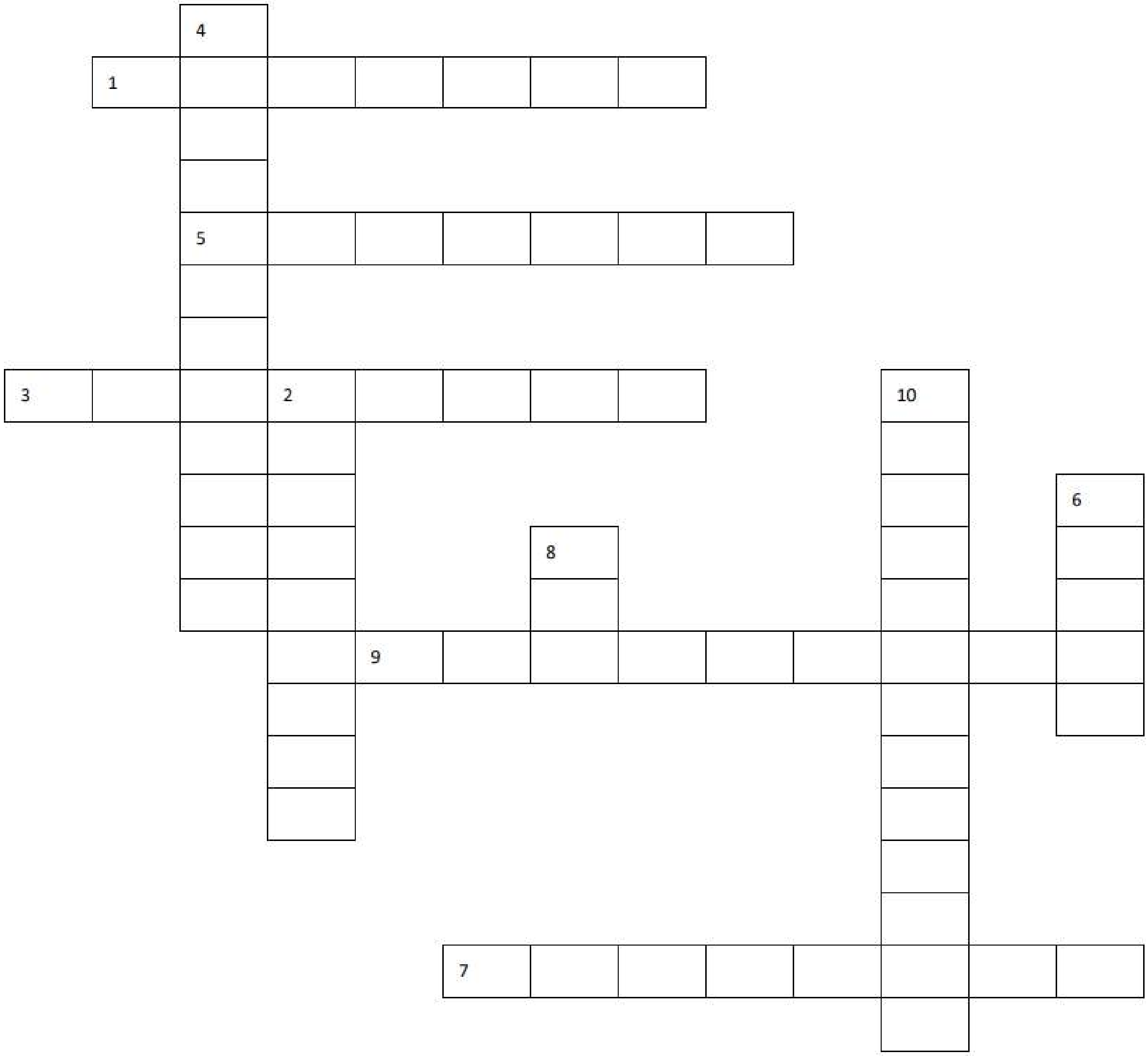
7. Cost:
MF: The cost involved in mutual funds is the expense ratio which is accounted in the NAV (Net Asset Value) which includes the asset management fee, other administrative charges and distributors commission (only for regular plans). There are some online platforms who may charge you on transaction basis or a percentage on your investments. Therefore, the total cost may come out as high as 3.5 per cent of your investment amount depending upon how you are routing your investment. In case you are going for a 'direct' plan, it can be less than 2 per cent.
PAS: The cost of portfolio advisory services start anywhere between Rs. 20,000 to Rs. 25,000.
PMS: They charge on percentage on your investments annually and may also have a profit-sharing model wherein, in case an investor get more returns than promised by PMS then on that extra return investor needs to share the profit. On average, it comes out to be around 2.5 per cent in case of a fixed fee. However, in case of profit sharing, it is around 1 to 1.5 per cent plus profit sharing per cent.
Winner: Assuming investment corpus of Rs. 10 lakh in each case, PAS is a clear winner as the cost comes out be around 2.25 per cent of investment corpus.

8. Service Provider:

MF: In more than 90 per cent of the case Broker or a mutual fund distributor would be helping you to buy a fund
PAS: You will receive only advisory on the number of stocks to buy and at what price to buy that helps you to build a portfolio that suits your risk-return profile.
PMS: You will not only receive advisory but your advisor who many times also happens to be a stockbroker will help you with execution.
Winner: PAS is a clear winner as there is no conflict of interest between the client and his service provider. In case of PMS and MF there is a conflict of interest because the more you churn your portfolio, the more your service provider will benefit in terms of getting brokerage or commission.

PAS as a product is right for all those individuals who'd like a team of professionals to manage their money so that it can create wealth for them that will help them fulfil the aspirations of their life.

CROSSWORD



ACROSS:

1. Expenditure shown in Balance Sheet.
3. Activity related to buying and selling.
5. Debit balance of Profit and Loss Account.
7. A person to whom we are liable to pay.
9. Fee charged by a broker.

DOWN:

2. Other term used for Stock.
4. This shows the financial position of the business.
6. Currency used in India.
8. Organizations not governed by Government.
10. Accounts made at year end.

Answers will be given on the last page of the newsletter

Designed by:
Bhavya Bhat, TYBAF

BAF TIMES Team
Aditya Patil, Bhavya Bhat, Gargi Patil, Nrupali Patkar

If you wish to contribute your articles to be featured in the next issue, please mail your articles on swapnils@mldc.edu.in or contact on 9987094858 by Tuesday of every week and wait for the issue to be released on Saturday.

All Articles in this issue are the personal views of the authors and the college does not necessarily subscribe to the personal views of the authors.

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