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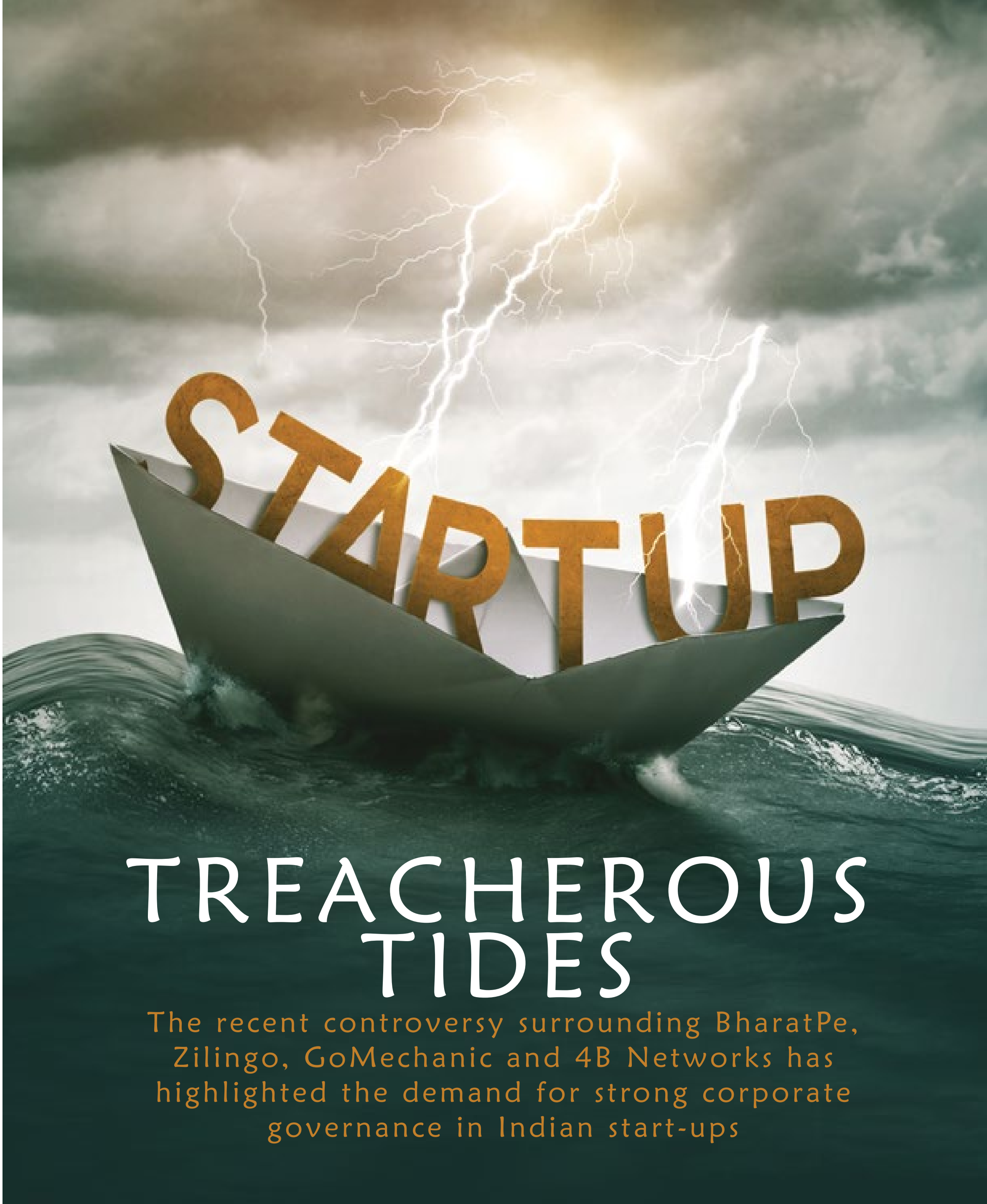

TREACHEROUS TIDES

The recent controversy surrounding BharatPe, Zilingo, GoMechanic and 4B Networks has highlighted the demand for strong corporate governance in Indian start-ups

Beyond Market
it's simplified...
NIRMAL BANG
a relationship beyond broking
a financial magazine crossing horizons

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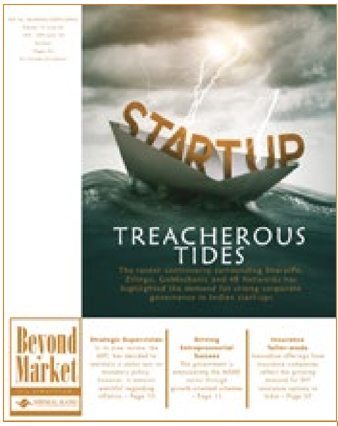
EDITORIAL



Tushita Nigam
Editor

Chaos & Confusion

The Indian start-up ecosystem has been facing its share of upheavals, with corporate governance lapses and other supplementary issues leading to chaos at the management level and confusion among investors. The cover story of Beyond Market's current issue explores these dampeners on growth in detail and also sheds light on what could help control such problems for start-ups in the future.

As you read along, you will find articles on the current state of the Indian economy, with greater emphasis on recent developments and setbacks; a review of the recently held Monetary Policy meet; the government's growth-oriented schemes that have been devised to support companies hailing from the MSME sector; investing in companies that have bounced back from a crisis or are facing one; and evaluating the pros and cons of picking companies to invest in based on the recommendations of social media influencers.

The article in the Beyond Basics section highlights how insurance companies are customizing plans to meet insurance buyers' unique needs. The other articles explore the advantages of investing in arbitrage mutual funds, and the potential impact of upcoming changes to mutual fund's total expense ratio (TER) on investors.

As you approach the end of the issue, the article in the Beyond Learning section delves into the significance of avoiding biases and refraining from judging a company solely based on the volatility of its stock price. This article is bound to make for an interesting read and must, therefore, not be misseD.

"Nifty Futures has support at the 18,720 level and 18,600 level, thereafter."

Nifty Futures: 18,815
(Last Traded Price As On 27th Jun '23)

Recently, the US Federal Reserve indicated that it might increase interest rates further to curb inflation, as "inflation pressures continue to run high, and the process of getting inflation back down to 2% has a long way to go."

In India, the Reserve Bank's monetary policy committee maintained the status quo and further indicated that rates would likely remain unchanged for some more time.

Market participants can gain insights into the market's direction by monitoring the upcoming FY24 Q1 earnings results of India Inc, which are expected to see further margin improvement due to reduced costs, and the progress of monsoon rains, over the next few weeks.

In the coming fortnight, the Indian stock markets look good. Nifty Futures has support at the 18,720 level and 18,600 level, thereafteR.

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A FAVOURABLE HEADWAY

India's economy exhibits a steadfast and dynamic momentum, propelled by robust and noteworthy developments within the country and outside it too with the exception of some setbacks

India's economy has showcased a resolute and encouraging momentum, characterized by a formidable upsurge in GST collections, an impressive 7.2% expansion in FY23 GDP, the astute acquisition of discounted oil imports amid the backdrop of the Ukraine conflict, a substantial surge in seafood exports, a projected inflation rate of 5.1% for FY24, and the diligent oversight of inflation and growth prospects by the unwavering Monetary Policy Committee.

GST Collection Expands 12% y-o-y in May

The Goods and Services Tax (GST) collection in May this year climbed 12% year-on-year (y-o-y) to ₹ 1.57 lakh crore, marking the fifth time the collection has breached the ₹ 1.5 lakh crore-mark since its inception in July '17.

The May GST collection is slightly higher than expected, marking the 14th consecutive month that the monthly collection has surpassed the ₹ 1.4 lakh crore-mark. In May of the previous year, the GST revenue stood at ₹ 1.41 lakh crore.

Given the steady collection trend in the last nearly one-and-a-half years, there is a high possibility of GST mop-ups ranging between ₹ 1.55 lakh crore and ₹ 1.65 lakh crore over the next few months.

In May, the Central GST (CGST) stood at ₹ 28,411 crore, while State GST (SGST) and Integrated GST (IGST) amounted to ₹ 35,828 crore and ₹ 81,363 crore, respectively. The cess collected was ₹ 11,489 crore, which includes ₹ 1,057 crore collected on the import of goods.

"During May, revenue from import of goods was 12% higher and revenue from domestic transactions (including import of services) was 11% higher than revenue from these sources during the same month last year," the Finance Ministry said.

In terms of volume, Maharashtra, Gujarat, Karnataka, and Tamil Nadu registered the highest collections.

India Clocks GDP Growth Of 7.2% In FY23

India registered a GDP growth of 7.2% in FY23, with the growth in the January-March '23 quarter (Q4 FY23) climbing to 6.1%. The economy expanded at 13.1%, 6.2%, and 4.5% in Q1, Q2, and Q3, respectively, on an annual basis in FY23. In FY22, the country's economy had expanded 9.1%.

The agriculture sector expanded at 5.5%, while mining and manufacturing grew at 4.3% and 4.5%, respectively. Construction grew at 10.4%, while electricity and the financial sector recorded growth rates of 6.9% and 7.1%, respectively. Trade, hotels, and public administration grew at 9.1% and 3.1%, respectively.

The Indian government's bold move to ink a deal with Russia to import the latter's oil at discounted rates has stood the country in good stead. This far-sighted initiative has helped reduce oil import expenses and conserve valuable financial resources.

Additionally, an upsurge in export volumes, combined with the rupee's relative weakness against the USD over the past year, was instrumental in helping India achieve the better-than-expected 7.2% GDP growth. On the expenditure side, capital formation at 8.9%, driven by government investment expenditure, also contributed to bolstering economic growth.

However, there is a blip on the radar in the form of low private consumption. A minuscule 2.8% growth indicates waning private sector demand, and this is a worrying factor that requires policymakers' intervention on a priority basis.

India's IIP Climbs 4.2% In April

The country's Index of Industrial Production (IIP) climbed 4.2% on an annual basis in April this year, up from 1.1% in March and 6.7% in April '22, according to the Ministry of Statistics and Programme Implementation.

India's IIP had slipped to a five-month low of 1.1% in March, which has now been revised upward to 1.7%. The previous lowest level of growth registered was in October '22, with a contraction of 4.1%.

The manufacturing sector output expanded by 4.9% in April this year, compared to 5.6% in the year-ago period, as reported by the National Statistical Office. It should be noted that this crucial sector accounts for more than three-fourths of the IIP.

Power generation declined by 1.1% in April this year, compared to a growth of 11.8%, while mining output rose by 5.1% in April, compared to an 8.4% growth in the year-ago period.

Based on the use-based classification, the indices stand at 142.1 for primary goods, 94.0 for capital goods, 150.7 for intermediate goods, and 168.8 for infrastructure/ construction goods for April this year.

The indices for consumer durables and consumer non-durables were 106.8 and 153.7, respectively, for April this year.

The category that witnessed a significant turnaround in April was consumer non-durables, with output increasing by 10.7% after contracting by 2.7% in March.

There was also double-digit growth in the production of infrastructure goods, reaching 12.8% compared to 7% in March this year.

However, consumer durables' output contracted for the fifth consecutive month, this time by 3.5%.

India, China Buy 80% Of Russia's Oil In May

The two Asian giants, India and China, purchased 80% of Russia's oil in May this year, according to a report by the International Energy Agency (IEA). These two major economies bought a significant portion of the oil at a huge discount, despite Russia's ongoing conflict with Ukraine.

The IEA's latest Oil Market Report revealed that Indian oil purchases increased from almost nothing to nearly 2 million barrels per day (bpd), while China increased its purchases by 5,00,000 bpd to 2.2 million bpd.

A point that needs highlighting here is that Russian-origin sea-borne crude exports averaged 3.87-million bpd in May which is the highest since the Russia-Ukraine war commenced in February 2022.

It is worth highlighting that Russian-origin sea-borne crude exports averaged 3.87 million bpd in May, which is the highest level since the Russia-Ukraine war began in February '22.

Furthermore, India's imports of Russian oil were 14% higher than in April, reaching a new record high for Russian crude flows into the country.

The context behind this surge in Asian oil purchases is that many European countries and the G7 nations imposed bans and shipping restrictions on Russian imports in response to the war with Ukraine.

In order to counter these measures and keep its economy afloat, Russia started shifting its exports towards Asia.

At present, over 90% of Russian sea-borne crude is being shipped to Asia, a steep climb from the pre-war level of 34%.

The IEA said that in India, the demand for oil is set to rise and that it is poised to expand by more than 1 million bpd between 2022 and 2028.

The agency said, "Growth will be buttressed by favourable demographics and an expanding middle-class. India is set to overtake China in terms of global year-on-year oil demand growth in 2027. Further propelled by trends such as urbanization, industrialization and the emergence of a wealthier middle-class keen for mobility and tourism, Indian oil demand will grow by more than 1 million bpd between 2022 and 2028."

India's Seafood Exports Up 4.3% In FY23

The country's seafood exports increased by 4.31% to USD 8.09 billion in the last fiscal year (FY23). This growth was primarily driven by a robust rise in the shipments of frozen shrimps. Out of the total USD 8.09 billion, frozen shrimp exports alone accounted for USD 5.48 billion in FY23.

"Frozen shrimp remained the major export item in terms of both quantity and value while USA and China turned out to be the major importers of India's seafood," India's Commerce Ministry said.

In volume terms, exports jumped to 17,35,286 tonnes in FY23 as against 13,69,264 tonnes in the previous year (2021-22).

Apart from shrimp, other segments which registered healthy export growth included black tiger, frozen fish, frozen octopus, canned products and frozen lobster.

According to the Commerce Ministry, the US constitutes the largest market for frozen shrimp and continues to be the major importer of Indian seafood in terms of value.

RBI Projects CPI Inflation at 5.1% For FY24

The Reserve Bank of India (RBI) has projected Consumer Price Index (CPI)-based inflation for FY24 at 5.1%. For the four quarters of the fiscal, the RBI has projected inflation thus - Q1 at 4.6%, Q2 at 5.2%, Q3 at 5.4% and Q4 at 5.2%.

Headline inflation trajectory would likely be shaped by food price dynamics and in this regard the forecast of a normal south-west monsoon by the India Meteorological Department (IMD) augurs well for kharif crops.

The RBI, however, cautioned that spatial and temporal distribution of monsoon would need to be closely monitored to assess the prospects for agricultural production.

Milk prices could remain high due to a supply shortfall and high fodder costs. However, due to healthy mandi arrivals and procurement, wheat prices could witness some correction.

Crude oil prices have moderated, which is indeed good news. But the outlook remains uncertain. Early results from RBI's surveys indicate that manufacturing, services, and infrastructure firms polled expect input costs and output prices to harden. A clearer picture will emerge only after the final survey results are released.

The cumulative 250 basis points (bps) rate hike undertaken by the apex bank is transmitting through the economy, and its fuller impact should help keep inflationary pressures contained in the coming months, it said.

The Monetary Policy Committee (MPC), headed by RBI Governor Mr Shaktikanta Das, said that it will maintain a "close vigil on the evolving inflation and growth outlook and will take further monetary actions promptly and appropriately as required to keep inflation expectations firmly anchored and to bring down inflation to the target (four per cent plus/minus two percentage pointS)."

In its June review, the MPC has decided to maintain a status quo on monetary policy; however, it remains watchful regarding inflation

STRATEGIC SUPERVISION

T

he six-member Monetary Policy Committee (MPC), which serves as the interest rate-setting body of the Reserve Bank of India (RBI), has kept its policy rates unchanged for the second consecutive time in June. The decision to maintain the status quo on policy rates was anticipated, considering the recent decline in inflation. This provides the RBI with an opportunity to adopt a more cautious approach, allowing it to assess the outcomes of previous rate hikes.

In the current interest rate hike cycle, the MPC has raised the repurchase rate (repo rate) from 4% in May '22 to 6.5%, indicating a hike of 250 basis points. In April and now in June, the MPC has chosen to maintain policy rates at their current levels without making any changes.

To provide some background on the rate hike cycle, following the Covid-19 pandemic, inflation measured by the Consumer Price Index (CPI) remained above the 6% threshold for several quarters. This necessitated the MPC to implement a series of consecutive rate hikes. The MPC's mandate is to maintain inflation at a level of 4% within a band of 2% on either side.

With the status quo in June, the repurchase rate (repo) now stands at 6.5%, and the policy stance has been kept at 'withdrawal of accommodation.' The repo rate is the interest rate at which banks borrow from the RBI in times of tight liquidity in exchange for government securities as collateral. The repo rate influences all the other interest rates in the system such as banks' lending and borrowing rates. It also influences yields on government and corporate bonds. The policy stance gives some indication of the future direction of the upcoming reviews.

After the June policy review, two things have become clear: One, we may have reached the end of the rate-hike cycle and two, the RBI is now working towards keeping inflation tamed at 4%.

Will The Rate Hike Cycle End?

With inflation trending lower in India and globally, most expect that we may not see any further rate hikes from here. In recent weeks, global central banks have also slowed down or paused their rate-hike cycles.

To point out, all central banks had hiked rates in tandem in the last one year as global inflation soared as an aftereffect of the easing of monetary policy undertaken to counter the Covid-19 pandemic.

In India too, the inflation trajectory is supporting the pause by the MPC. Retail inflation continued its downward trajectory in May, easing to a 25-month low of 4.3% (data was released after the June review). In April, it stood at 4.7%. The RBI has revised its fiscal year 2023-24 inflation projection slightly lower to 5.1% from its earlier forecast of 5.2% made in April. Inflation inching closer to 4% gives some relief to the MPC and signals that the phase of aggressive rate hikes may be behind us.

Another reason why the MPC may not be aggressive in hiking interest rates from here is because of concerns around economic growth. As a result of rate hikes, commercial banks have increased their lending rates. This has impacted economic growth.

Although India's growth rate is better compared to many developed and developing economies, it is still below its potential. Any ill-conceived rate hikes would impact economic growth prospects. It is important to keep in mind that the MPC also has to support economic growth even as it targets inflation.

There are many who believe that the RBI, with a pause in

MPC Policy Decisions & Voting Patterns			
Meeting	Rate Action		Policy Stance At 'Withdrawal Of Accommodation
	(Basis Points)	Voting Pattern	Voting Pattern
May-2022	+40	6.0	6.0
June-2022	+50	6.0	6.0
August-2022	+50	6.0	6.0
September-2022	+50	5:1*	5.1
December-2022	+35	5.1	4.2
February-2023	+25	4.2	4.2
April-2023	Status Quo	6.0	5.1
June-2023	Status Quo	6.0	5.1

Note: *One member voted for a 35-bps repo rate hike; '+' implies a repo rate hike
Source: Care Ratings

June, will now prioritize economic growth as inflation is in a comfortable zone. The RBI has retained its projection for India's real GDP growth at 6.5% in fiscal year 2023-24 with minor tweaks to the quarterly growth projections. Most analysts expect the RBI to stay put on policy rates in the current financial year, followed by repo rate cuts in the early part of the next fiscal year to support economic growth.

NEW PRIORITY: 6% TO 4%

Inflation has eased to the RBI's comfort zone, but it remains high. For example, when the MPC started cutting the repo rate (even before the covid pandemic struck India) to boost economic growth, inflation was around 2% while the repo rate was around 6.5%. Currently, even though the repo rate is at 6.5%, the CPI inflation is expected to stay around 5%, which is comparatively higher.

More importantly, before prioritizing economic growth over inflation, the RBI would want to be sure that it has won the inflation battle. It would want to ensure that inflation expectations are lower in the economy. After all, a low and stable inflationary regime is necessary for the resilience in domestic economic activity to be sustained.

Most analysts expect a prolonged pause in policy rates from here on, after which the RBI will continue its march towards its 4% inflation target in a calibrated manner without causing much damage to economic prospects. Until then, prioritizing economic growth over inflation can wait.

FINALLY - STAYING WATCHFUL

Monetary policy typically impacts the real economy with a lag of 3-4 quarters. The central bank is currently evaluating the impact of past rate hikes on growth and inflation while remaining cautious of the upside risks of inflation.

It is for this reason that the stance of the policy - an indicator that the MPC discloses along with policy action itself - has been maintained at "withdrawal of accommodation." The policy stance keeps the window open for further monetary policy tightening if required.

Furthermore, there are fears that inflation may raise its head again on the back of risks from global spillovers, El Niño, and an uneven monsoon, which can shore up food prices.

Another reason to be cautious is that the fiscal deficit is now 6%, compared to 4.5% pre-Covid. A higher fiscal deficit is inflationary in nature. Any pre-emptive policy loosening can backfire and result in even higher inflation.

All this means is that while the phase of aggressive rate hikes may be behind us, any upside to inflation will be keenly watched by the Reserve Bank of IndiA.

DRIVING ENTREPRENEURIAL SUCCESS

The government is empowering the MSME sector through growth-oriented schemes

Micro, Small, and Medium Enterprises (MSMEs) play an important role in the Indian economy, contributing nearly 30% to the country's Gross Domestic Product (GDP) and accounting for 45% of its exports, which amounts to almost USD 1 trillion, as per a report by KPMG and the Confederation of Indian Industry. Additionally, these enterprises generate employment for approximately 20% to 25% of the nation's workforce, making a significant impact on overall economic growth.

But despite its economic potential, the MSME sector faces numerous challenges that restrict its growth, with inadequate access to finance being the most significant obstacle. According to estimates, the sector requires approximately ₹36 lakh crore in funding, while only ₹16 lakh crore is available as formal credit, resulting in a credit gap of ₹20 lakh crore. In the absence of formal sources of finance, many micro-entrepreneurs depend on family, friends, and local moneylenders to meet their credit needs.

Limited technical knowledge, funding, innovation, and awareness frequently contribute to MSMEs operating with outdated technology, resulting in lower productivity levels. Moreover, due to limited access to formal training, many MSME entrepreneurs lack the managerial competence found in their counterparts in larger firms. This situation presents challenges in resource planning, capital management, labour management, bookkeeping, analysis, and decision-making, thereby hindering their growth potential.

Insufficient market linkages present challenges for MSMEs, as supply chain disruptions can have a significant impact on their performance. The involvement of multiple intermediaries complicates organizational and procurement processes, hindering cost reduction and the streamlining of the supply chain.

Moreover, limited access to reliable electricity, water, and infrastructure escalates operational expenses, thereby reducing competitiveness. Restricted access also affects raw material procurement, availability of skilled labour, and growth potential. Additionally, the slow adoption of technology further hampers productivity and competitiveness, as MSMEs struggle to keep pace with larger industries.

Despite these challenges, the government is actively working to boost the MSME sector and help overcome these obstacles. The government has placed a strong emphasis on promoting the growth of MSMEs, leading to the implementation and expansion of various schemes.

Notably, the Prime Minister's Employment Generation Program (PMEGP) and Mudra Units have been expanded to provide financial assistance to MSMEs. The Procurement and Marketing Support (PMS) scheme facilitates access to new markets for existing entrepreneurs.

The Micro and Small Enterprises Cluster Development Program (MSE-CDP) addresses areas such as technology upgrades, skill development, market access, and infrastructure modernization.

Additionally, the Entrepreneurship and Skill Development Program (ESDP) plays a vital role in nurturing new businesses, enhancing the capabilities of existing enterprises, and fostering an entrepreneurial culture nationwide.

With the aim of creating a conducive environment for the growth and success of MSMEs, the government has implemented supportive policies and initiatives. Union Budget 2023 also underscored the importance of MSMEs by introducing measures aimed at providing support and encouragement to the sector.

Notably, the government has

allocated an estimated budget of ₹22,140 crores for the MSME sector, marking a 42% increase compared to previous years.

This allocation will be utilized to implement schemes that ensure convenient and affordable access to credit, facilitate technological advancements, and promote infrastructure development. Additionally, the government has proposed a range of tax incentives and subsidies to further assist MSMEs.

A key highlight of Budget 2023 is the introduction of a dedicated fund worth ₹10,000 crore aimed at promoting technological advancements and infrastructure development in the MSME sector. This fund aims to provide financial assistance to MSMEs, enabling them to adopt innovative technologies, enhance their production processes, and modernize their overall operations.

Additionally, the government plans to establish a national-level mentorship program to offer valuable guidance and support to MSMEs.

To simplify credit access for MSMEs, the government has proposed a series of reforms and the establishment of a credit guarantee fund. Furthermore, a credit-linked capital subsidy scheme has been introduced to facilitate the procurement of new machinery and equipment.

Starting 1st Apr '23, the Finance Ministry plans to inject ₹9,000 crore into the Credit Guarantee Fund Trust for Micro and Small Enterprises Credit Guarantee Scheme. The ministry aims to provide collateral-free credit amounting to ₹2 lakh crores to MSMEs, while also reducing the cost of credit by 1%. With a successful track record of supporting over 2,000 women entrepreneurs and enabling financial linkages surpassing ₹85 crores in the last five years, this initiative holds tremendous potential to accelerate the growth of MSMEs.

The budget includes measures to facilitate the transition of MSMEs and small businesses towards non-cash transactions, while also streamlining compliance through presumptive taxation schemes.

Furthermore, funds have been allocated to promote entrepreneurship and enterprise development in traditional sectors like agriculture and handicrafts, with a concurrent emphasis on skill-building initiatives.

Additionally, start-ups that experience changes in their shareholding structure can now carry forward their losses related to such changes, benefiting from this provision outlined in the budget.

The role of MSMEs in nation building and economic growth cannot be understated. The concept of a self-reliant or "Atmanirbhar Bharat" has long been an objective of the Indian government, driven by shifts in the global economic, social, and geopolitical landscape. In recent years, it has emerged as a rallying call for Indian businesses to achieve self-sufficiency and propel the nation's economy forward. Leading this charge are MSMEs, who play a vital role in this initiative.

Therefore, it is imperative for the government to continue prioritizing and accelerating support for this sector, specifically aligning ease of doing business initiatives towards MSMEs.

Targeted government policies can serve as a powerful catalyst in directing MSMEs towards key sectors of the economy, thus fuelling overall economic growth. This can be achieved through the formulation of favourable policies, provision of incentives, and, most importantly, the removal of on-ground obstacles, with easy access to credit being a prime example.

Existing schemes such as the CGTMSE and ECLGS have already facilitated streamlined access to formal credit for numerous MSMEs, promoting their growth and development.

The inclusion of the MSME sector in India's financial ecosystem is another crucial step towards its sustainable growth. Seamless and prompt access to finance plays a pivotal role in achieving this objective.

In addition to traditional banks and NBFCs, it is important to encourage fintech companies to offer innovative digital financial solutions to MSMEs.

Digital lenders bring an

innovative approach to lending by leveraging various data sources and analyzing economic behaviour and payment history to assess creditworthiness with consent.

By facilitating increased participation of data-driven fintech firms in financing MSMEs, both the sector itself and the broader financial industry can be strengthened, fostering growth and resilience.

Promoting digitalization among MSMEs can enhance their operational efficiency, elevate customer service through digital platforms, and improve the overall customer experience.

Consequently, this will enable MSMEs to effectively compete with other players, expand their customer base, and explore untapped markets.

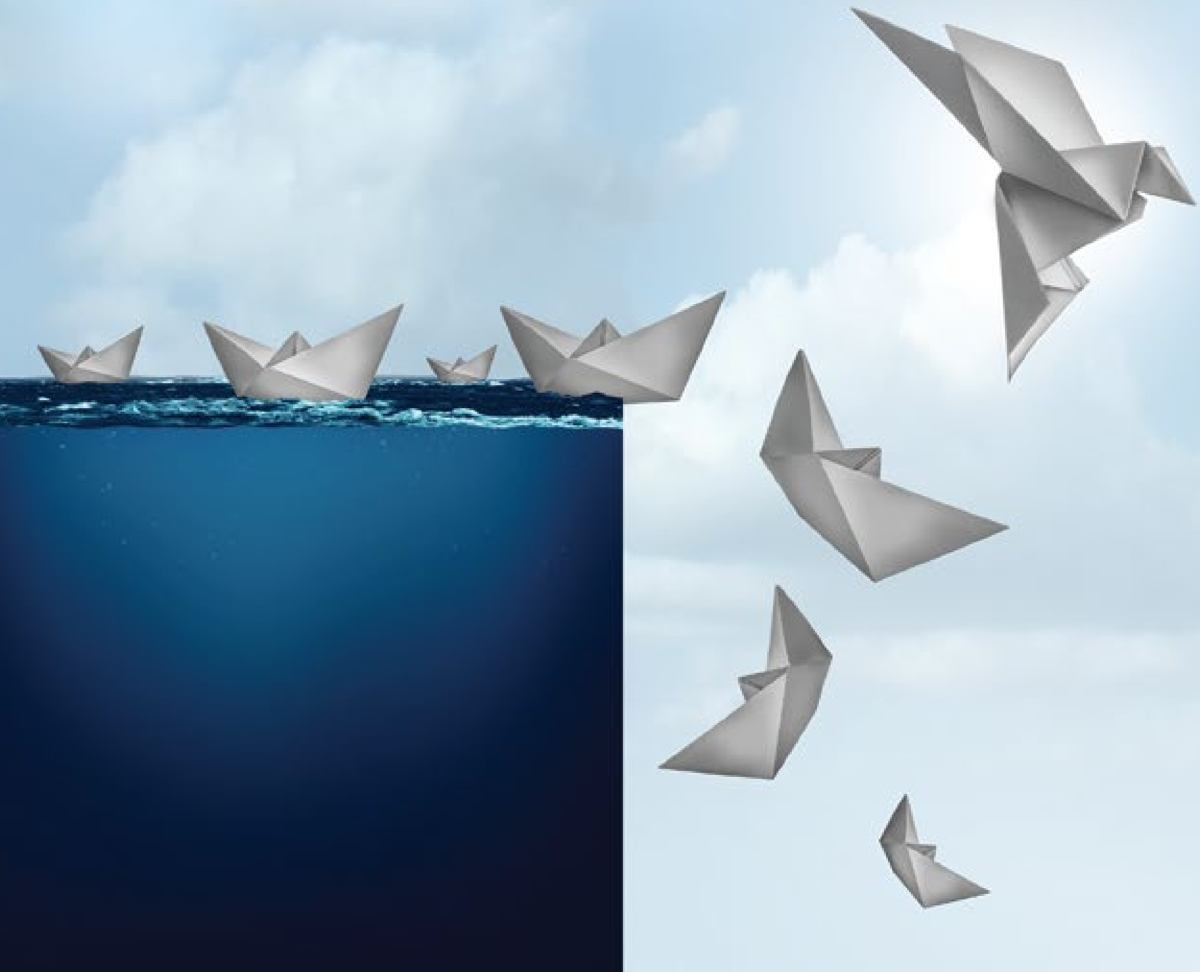
Additionally, providing focused skill development training to micro-entrepreneurs in both urban and rural areas is vital. This equips them with the necessary knowledge to deliver top-notch products, identify market opportunities, anticipate future challenges, and embrace technology-driven strategies.

With entrepreneurship, innovation, and agility as its bedrock, the MSME sector has the potential to make a substantial contribution towards India's objective of achieving a $5 trillion economy within the next five years. The sector can emerge as a driving force in transforming India into a developed nation by 2047.

Though the journey ahead may be long, the unwavering commitment of the MSME sector could pave the way for huge growth and progresS.

BARGAIN HUNTING

If done wisely, investing in companies going through a crisis can enhance an investor's portfolio



Investing can be challenging, especially when dealing with a company going through a crisis. Even the best investors can struggle to correctly assess the situation and make timely investments in such companies.

In India, there are many examples of companies facing crises, with some presenting opportunities while others posing significant risks. Therefore, choosing the right investment strategy is extremely important.

Here are some strategies and factors to consider before investing in a beleaguered company:

• Analyze The Cause Of The Crisis

To analyze the cause of a crisis, investors should first determine the reason behind the plunge in the price of a stock. This involves ascertaining whether the fall is due to external factors such as economic downturn or industry-wide issues, or company-specific problems such as poor management or financial mismanagement.

By doing so, investors can identify the root cause of the crisis and assess whether the company has the potential to recover.

• Get A Grip On The Company

Once the root cause of the crisis has been identified, the next step is to research the company and review its financial statements to understand its current financial situation.

Specifically, investors should look at the company's revenue, profitability, cash flow, debt levels, and liquidity to determine if it has sufficient resources to weather the crisis and if it has the potential to generate profits in the future.

Additionally, a thorough understanding of the company's competitive landscape, including its key strengths, weaknesses and opportunities can provide valuable insights.

This should include an understanding of the company's products and services, market share, and customer base, which will help determine the viability of its future.

• Look At The Company's Management Team

The management or owners of the company play a key role in navigating a crisis, and their skills and experiences are essential.

Therefore, it is important to understand their character, the governance, composition of the board, and track record of CEO, CFO and other key personnel.

In 2015, Nestle, the Swiss food and beverage giant, faced a crisis in India when its Maggi noodles were found to contain high levels of lead and MSG (monosodium glutamate). As a result, the product was recalled nationwide, and many states in India banned its sale.

During the crisis, Nestle's management team was put to the test, and the company responded quickly. It initiated a recall of the product and worked with Indian regulators to address their concerns.

Additionally, Nestle launched a major advertising campaign to reassure consumers about the safety and quality of its products.

Ultimately, Nestle's management team successfully navigated the crisis by addressing the concerns of regulators and consumers and by working to regain trust in the brand.

After passing all safety tests and regaining regulatory approval, the company relaunched Maggi noodles in India. This move was well-received by consumers, and Nestle's stock, which had corrected from around ₹ 7,500 to ₹ 5,000 during the crisis, has since rebounded majorly and is now worth ₹ 20,497 a share.

• Determine If The Crisis Is Structural Or Cyclical

After gaining an understanding of the company and its management, investors need to dive deeper into the crisis.

The first step is to evaluate the nature of the crisis and see whether it is structural or cyclical.

A cyclical crisis is a temporary setback caused by external factors, whereas a structural crisis is a more fundamental problem that requires significant changes to the company's operations or business model.

In the early 2010s, Colgate-Palmolive, the global consumer goods company known for its toothpaste and other personal care products, faced a significant challenge in the Indian market as consumers shifted towards Ayurvedic products, based on traditional Indian medicine, rather than mainstream brands like Colgate.

This represented a structural change in the market, requiring Colgate to adapt to the shift by launching its own Ayurvedic product line and investing in marketing and advertising to regain its market share at a time when competitors were speedily entering the market hurting Colgate's already dented image.

Despite the uncertainty surrounding Colgate's future prospects during the crisis, investors who recognized the cyclical nature of the downturn and believed in Colgate's ability to adapt may have seen the stock price plunge as an opportunity to invest in a strong company at a discounted price.

Colgate's strong brand and adaptive strategy ultimately helped the company to regain its position in the market.

This example highlights the importance of recognizing the nature of a crisis and assessing a company's ability to adapt and recover.

In the case of Colgate, its successful response to a structural shift in the market helped the company to not only recover but thrive, with the stock price increasing from around ₹ 300 a share to ₹ 1,550 a share currently.

• Understand The Severity Of The Crisis

The severity of a crisis can make or break a company's chances of recovery.

The global financial crisis of 2008 serves as a prime example, with some companies in the financial sector succumbing to severe losses and even bankruptcy, while others were able to weather the storm and bounce back eventually.

To gauge the severity of a crisis, several factors such as its depth, duration, and impact on the company and its financials should be considered. During 2008 crisis, many debt ridden companies simply vanished, unable to recover.

Similarly, in 2015, Renuka Sugars faced a severe crisis due to a combination of factors such as glut in the sugar market, a drought in India, and high levels of debt.

The company's stock price plummeted and it faced significant financial challenges. Even to this day, the stock has not recovered to its previous high. Investors should be cautious when dealing with such crises, as some may have deeper impact that may not be reparable.

• Valuation

Before investing in a company that is going through a crisis, it is important for investors to determine its valuation.

This involves analyzing the company's financial statements to determine its intrinsic value, or the value of the company based on its cash flows and future potential earnings.

Compare this value to the current market price to determine if the company under consideration is undervalued or overvalued.

A company that is undervalued may present a good investment opportunity, as its stock price is lower than its intrinsic value.

• Do Not Catch A Falling

Knife

Trying to catch a falling stock may be tempting, but it can be a risky strategy as there is no guarantee that the stock will stop falling.

In the past, several companies like Yes Bank have failed, and investors who tried to buy their stocks at the bottom ended up losing money.

Instead of taking such a risky approach, it is better to gather all the facts about the company and its crisis, analyze its impact on the company's future prospects, and determine what is already priced into the stock.

Investors should also wait for the stock to stabilize or show signs of recovery before investing, as this reduces the risk of losing money.

• Consider What Is Already Priced Into The Stock

Once the crisis and its impact have been evaluated, the focus should shift to analyzing the stock price. It is important to consider whether the market has already factored in the crisis and adjusted the stock price accordingly.

If the current stock price reflects the full impact of the crisis, the stock may not be undervalued and may not present a good investment opportunity.

A recent example of a crisis that affected a stock price is the case of Yes Bank, one of India's largest private sector banks, which faced a major crisis in 2020 when it was put under a moratorium by the Reserve Bank of India due to financial irregularities and deterioration in its financial health. The stock price had already plunged, and many retail investors were caught in the fall.

Initially, investors were not able to accurately price the risks associated with the crisis, as the bank's financial health and management issues were critical.

They could not assess the potential for further losses and write-offs, as well as the impact on the bank's reputation and future prospects, requiring significant capital infusion and a longer, painful and a very uncertain recovery.

Thus, it is important to consider all the factors before making an investment decision.

• When Valuing, Think Like Graham In Terms Of Real Hard Assets

Benjamin Graham, widely regarded as the father of value investing, emphasized the significance of assessing a company's real hard assets, including property, plant, and equipment, when making investment decisions.

This approach holds particular relevance when investing in a company that is currently facing a crisis, as negative market sentiments can lead to undervaluation of a company's assets.

By diligently valuing a company's assets, investors may be able to identify potentially lucrative investment opportunities that others may have overlooked. This can help investors make informed decisions and possibly benefit from undervalued assets of the company.

• Keep Some Cash For Volatility

Investing in a crisis-hit company can be volatile, and the stock price may fluctuate sharply. Having cash on hand is crucial to take advantage of buying opportunities or weather short-term losses.

• Do Not Go Overboard

Investors must avoid going overboard when investing in a company facing a crisis. It is advisable to invest only a portion of their portfolio in the stock and diversify their portfolios to minimize risks.

Despite having sound knowledge, unexpected situations and uncontrollable factors can cause assumptions to go awry. In such cases, investors can face losses for being wrong.

Therefore, it is crucial to diversify the portfolio to mitigate risks and safeguard investments against market uncertainties

• Think In Terms Of Probability

Many astute investors, such as Howard Marks and Warren Buffett, think in terms of probability when making investment decisions.

When investing in a

beleaguered company, investors must, therefore, determine the likelihood of the company's recovery and weigh the potential risks and rewards.

They must also consider the worst-case scenario and decide whether they are willing to accept the potential losses.

This approach can help investors make informed decisions and develop investment strategies that suit their risk tolerance and investment goals.

By placing the right weight on their investments, investors can minimize potential losses and maximize potential returns.

• Size Your Bet Accordingly

Once investors have analyzed the potential risks and rewards, they must size their bets appropriately. Investors should only invest an amount that they can afford to lose and determine the appropriate percentage of their portfolio to allocate to the stock.

They should consider the potential risks and adjust the size of their position accordingly. This approach can help investors avoid taking excessive risks and protect their portfolios against potential losses.

• When In Doubt, Stay Away

If investors are uncertain about an investment decision, it may be best to stay away. They should not let the fear of missing out or the pressure to invest cloud their judgment.

Instead, they must wait until they have a better understanding of the situation to make a more informed decision.

• Gut Feeling Is Bad In The Stock Market

Relying solely on gut feelings or intuition when investing in a crisis-hit company can be dangerous in the stock market.

Investment decisions must be based on thorough research, analysis, and sound reasoning. Investors must avoid making impulsive decisions that are based solely on emotions or intuition, as this can lead to poor investment choices and unnecessary risks.

• Be Extremely Careful In Reading News Flow During The Crisis

During a crisis, there can be a lot of news and information circulating about a beaten-down company and its prospects. It is important to be extremely careful when reading news and to evaluate every piece of information with a critical eye.

News outlets may have their own biases or agendas, and some may report incomplete or inaccurate information. As an investor, it is vital to gather information from multiple sources and to carefully consider the reliability and relevance of each piece of news.

• Think Independently And Evaluate Every Bit Of News With A Pinch Of Salt

Investors must consider the source of the information, the context of the situation, and the potential impact on the company's prospects. They must be wary of sensational headlines or information that seems too good (or too bad) to be true.

Therefore, it is essential to question the validity of the information and seek confirmation from multiple sources before making investment decisions.

This way, investors can make more informed decisions and reduce the risks associated with investing in companies going through a crisis.

By analyzing news with a critical eye and conducting thorough research, investors can make informed investment decisions and avoid potential pitfalls.

• Do Not Allow Your Biases To Misjudge The Situation

Investing in a company facing a crisis requires being mindful of personal biases that can cloud one's judgment. Such biases can cause overconfidence, groupthink, and herd behaviour, leading to detrimental investment decisions.

To avoid these pitfalls, it is essential to maintain objectivity, keep an open mind, and adjust assumptions and conclusions as new information arises.

By doing so, investors can make more informed decisions and improve their chances of succesS.

TREACHEROUS TIDES

The recent controversy surrounding BharatPe, Zilingo, GoMechanic and 4B Networks has highlighted the demand for strong corporate governance in Indian start-ups

One of Warren Buffett's most famous quotes is: "Only when the tide goes out do you learn who has been swimming naked." Well, the tide is receding in the Indian start-up world.

With funding dropping to a trickle from the deluge of 2021, and investors growing cautious in H2 2022, many high-growth domestic start-ups such as BharatPe, Zilingo, Infra.Market, GoMechanic and Trell have found themselves at the centre of corporate governance issues and forensic audits.

This has led to concerns around the 'growth at all costs' mentality in the Indian start-up ecosystem, the third largest in the world. To be sure, the recent issues at start-ups are a global phenomenon.

Global crypto exchange FTX faced scrutiny over allegations of insider trading, leading to the arrest of its founder. The Cambridge Analytica scandal exposed the mishandling of personal data. Theranos' governance lapses involved a dominant founder-CEO, misrepresentation of capabilities, and a lack of transparency, leading to legal consequences and loss of trust.

Similarly, Wirecard's fraud case highlighted the weaknesses in internal controls and external audit oversight, and collusion between executives and external parties.

This is not a new phenomenon. Across cycles, frauds have usually been unearthed right after a period of market boom.

After the dot-com bust of 2001 too, several companies were found to use aggressive accounting practices or indulge in outright fraud.

Similarly, after the infrastructure boom between 2003 and 2007, several infrastructure companies in the listed and unlisted space ran into trouble with government agencies, banks, shareholders and other stakeholders.

The fresh trigger for governance concerns was provided by Rahul Yadav with a run-in with investors at his new venture 4B Networks after an unceremonious showdown at his earlier venture Housing.com a few years back.

Yadav has found himself at the centre of allegations concerning the misappropriation of funds. Yadav successfully attracted major investors for housing.com in 2012, becoming a prominent figure in the start-up scene. However, three years later, a dispute with one of the venture capitalists resulted in Yadav stepping down as CEO. He then embarked on launching another start-up, Intelligent Interfaces, which ultimately failed, leaving investors in a difficult position.

His latest venture, 4B Networks connects builders with buyers and facilitates financing through banks. Despite receiving substantial funding amounting to ₹280 crore and investors holding a 65% stake in the start-up, Yadav faces allegations of misusing investor funds.

Accusations include extravagant personal expenses such as purchasing a Maybach and renting a boardroom in a five-star hotel for ₹85,000 per day while leaving numerous employees without salaries. As a result, a lead investor has requested a forensic audit of the start-up to investigate the alleged misconduct. Yadav, however, vehemently denies any wrongdoing.

BharatPe

The bigger controversy that dominated the news in the last one and a half years is fintech firm BharatPe, which is currently embroiled in a legal battle involving allegations of fraudulent activities by its former Managing Director, Ashneer Grover, and his family members. The company has filed a civil lawsuit seeking damages amounting to ₹88.67 crore, while also filing a criminal complaint with the Delhi Economic Offences Wing (EOW) against the individuals involved.

BharatPe accuses Grover and his family of engaging in various fraudulent practices, including the creation of fictitious vendors, fabrication of invoices, and inflating recruitment costs. These actions have allegedly resulted in financial losses and reputational damage to the company.

The start-up's annual report highlighted concerns raised by Deloitte, the auditing firm, regarding flaws in BharatPe's internal control systems. The auditors identified issues with vendor selection, invoice approval processes, and recording of GST input credits and penalty payments. However, the report stated that no instances of fraud were reported by the auditors to the board of directors.

Ashneer Grover responded to the allegations, emphasizing the absence of fraudulent activities as stated in BharatPe's annual report. He criticized the media for 'misconstruing' the facts and pointed out that Deloitte received a substantial audit fee for their services.

The case highlights the importance of thorough due diligence and monitoring for investors in start-up ventures. It serves as a reminder of the risks involved in fund misappropriation and the potential financial losses that can occur if proper corporate governance and oversight are not in place.

As the legal proceedings continue, BharatPe aims to seek justice and recover the damages caused by the alleged fraudulent actions. The outcome of this case will have implications for the start-up ecosystem and underscore the need for robust checks and balances to protect investors and maintain trust in the industry.

Zilingo

Zilingo, a Singapore-based B2B fashion start-up, is undergoing liquidation due to a combination of factors that led to its downfall. Disagreements between co-founders, financial mismanagement, and poor governance practices contributed to the company's demise.

Despite reaching a valuation of over $1 billion and achieving significant milestones, Zilingo faced financial red flags and disagreements between CEO Ankiti Bose and investor Shailendra Singh. These disagreements raised concerns about the company's financial stability and future investment prospects.

Financial irregularities, including large payments to a law firm and an unsuccessful promotional trip, further strained Zilingo's finances. Shifting strategies, high vendor discounts, and extended loans drained the company's resources. Unethical practices by sales executives added to the company's challenges.

The tensions between co-founders escalated when a whistleblower complaint alleged financial irregularities and personal fund misuse by CEO Ankiti Bose. Bose was subsequently suspended and asked to step down, leading to staff departures and investor loan recalls.

GoMechanic

The founder of GoMechanic, an Indian start-up valued at $300 million, recently admitted on LinkedIn that the company had engaged in fraudulent accounting practices.

Despite possessing all the ingredients for a successful start-up, including a strong brand, wide outreach, and founders from IIM-A, GoMechanic now faces the unfortunate reality of letting go of nearly 70% of its workforce.

The start-up had been grappling with working capital issues, resulting in payment delays and financial strain. To alleviate the situation, GoMechanic had been actively seeking funding from Softbank Group, led by renowned investor Masayoshi Son.

However, the potential deal fell through when the company failed to meet the due diligence requirements. It was during this process that the extent of financial misreporting became evident, forcing the start-up to come clean about its wrongdoing.

Reports indicate that the company manipulated revenue numbers, created fictitious garages, and ~6% of its 1,000 garages were involved in inflating revenue figures.

These cases serve as a stark reminder for investors about the risks in start-up investments and the potential loss of huge money.

HOW FOUNDERS MANIPULATE

Start-up founders have various means of manipulating the system, allowing them to deceive investors and misappropriate funds. These methods include excessive compensation, personal expenses paid using company funds, the establishment of shell companies for fictitious invoicing, and stock manipulation.

Such actions undermine the integrity of the start-up ecosystem and highlight the need for heightened awareness, thorough due diligence, and strong governance practices to protect investor interests and maintain trust within the start-up community.

INVESTORS' ROLE

Insiders have pointed to reckless deals and overlooked due diligence checks in the private equity and venture capital funding landscape. Investors, driven by the desire for superior returns and intense competition, rushed to close deals without thoroughly assessing crucial factors. The focus on vanity metrics and speedy deal closure led to oversight and negligence.

Venture capital firms have faced criticism for their lack of awareness and preparedness when mishaps occur. Limited partners (LPs) hold these firms accountable for diligently monitoring investments and ensuring the progress of portfolio companies.

Cutting corners in due diligence, fundamental checks related to financial accounting, tax compliance, and legal integrity were neglected. Investors skipped on exercising greater vigilance, allocating sufficient time for proper due diligence, and prioritizing post-investment monitoring and governance.

However, experts say that while mistakes and oversights can be addressed through diligent checks, detecting deliberate fraud can be more challenging.

WHAT AILS

Almost all start-ups have similar ambitions: Innovate on offerings, onboard and retain quality customers, achieve robust financials, and run the course from conception to implementation as regards the original idea.

A decline in new funding rounds has led to increased investor scrutiny and a more cautious approach to investments. The relentless pursuit of higher valuations and financial success has raised concerns about whether the original vision of societal change and innovation is being overshadowed by a focus on valuations.

Recent incidents involving potential financial fraud and allegations of misleading investors highlight the need to maintain ethics and integrity.

WHAT NEEDS TO BE DONE

Experts say the recent incidents involving irregularities in Indian start-ups have shed light on the critical importance of adopting a well-structured approach to governance and compliance. It is essential for start-ups to shift their perspectives and recognize the value of legal and compliance teams, viewing them as strategic assets rather than cost centres or obstacles.

By investing in these areas and prioritizing corporate governance, start-ups can safeguard their reputation and brand image, ensuring sustainable growth without compromising on compliance. Furthermore, investors and funds need to actively encourage start-ups to engage reputable law firms, independent auditors, and robust compliance teams to ensure long-term success and mitigate potential risks.

Founders bear a significant responsibility in upholding the interests of stakeholders and must understand that cutting corners for rapid growth is not a viable strategy. By embracing governance and compliance as allies rather than adversaries, start-ups in India can foster trust, protect their value, and lay a solid foundation for their future endeavourS.

HARNESSING SOCIAL MEDIA STARS

Prior to being charmed, companies and individuals must evaluate the pros and cons of social media influencers

Social media platforms have assumed an important role in our lives, impacting not only our purchasing decisions but also shaping our perspectives and worldview. Platforms such as Twitter, Facebook, Instagram, and LinkedIn have been shown in studies to exert significant influence on voters, even leading to substantial changes in election outcomes. This underscores the immense power wielded by social media platforms.

A prominent aspect of these platforms is the growing impact of influencers in shaping public opinion. Influencers have attained remarkable authority, capable of transforming preferences in diverse domains, fostering new consumer behaviours, and persuading their audience to switch allegiances regarding brands and other matters.

Consequently, companies and product manufacturers now attach considerable significance to influencers. In light of this, a vital question arises: How seriously should consumers regard influencers? Let us explore this matter within a broader context.

THE ADVANTAGES

Before delving into the advantages of utilizing the services of influencers, it is important to establish a clear understanding of what the term "influencer" signifies within the realm of statistics.

Broadly speaking, an influencer can refer to either a celebrity or a well-known individual. Additionally, an influencer can also be a non-celebrity who attains fame due to a substantial following. Social media experts typically categorize influencers into four distinct groups:

- **Mega-influencers:** These individuals possess more than a million followers and are often celebrities
- **Macro-influencers:** This category comprises individuals with follower counts ranging from 1,00,000 to 1 million
- **Micro-influencers:** These influencers have follower counts ranging from 1,000 to 1,00,000
- **Nano-influencers:** With relatively fewer followers, often below 1,000, nano-influencers possess considerable influence within their niche following

Now, let us explore the advantages of leveraging influencer services:

From Corporations' Perspective

a) Provides High Return On Investment

Influencer marketing is an effective form of marketing. According to the Influencer Benchmark Marketing Report 2023, 83% of marketers believe that influencer marketing is an effective form of marketing.

Statista, a trusted source of statistical information, also found that 59% of marketers said influencers can become more valuable to brands by creating content that generates interest and increases purchase intent.

In 2022, 39% of marketers invested 10% to 25% of their marketing budget on influencer marketing. On an average, businesses fetch $6.50 in revenue for every $1 invested in influencer marketing.

The Influencer Benchmark Marketing Report estimates that influencer marketing expenditure in the US will reach $4.6 billion in 2023. In 2022, spending is estimated to have grown to $4.14 billion, up from $3.69 billion in 2021.

b) Influencers Help You Save Money

Since influencer marketing has a high return on investment, it is a cost-effective way for companies to market their products and services. By partnering with influencers, companies can reach a large audience of potential customers at a fraction of the cost of traditional advertising and marketing avenues.

c) Influencers Are Really Influential

It is a fact that over 33% of Gen-Z consumers have bought a product based on recommendations from influencers. This drives home the point that influencers are relevant and useful in driving sales for companies. In fact, influencers are more trusted than friends and family.

The Flip Side Of The Story: Disadvantages Of Following Influencers

While influencers can be influential and provide valuable information, there are certain disadvantages to following them, particularly from the perspective of consumers. Let's explore some important drawbacks:

From Consumers' Perspective

• Lack of Authenticity

One significant disadvantage of influencer marketing is the lack of authenticity. Many influencers are paid to promote products, which makes it challenging to distinguish between genuine recommendations based on conviction and sponsored content. This lack of transparency can lead to a loss of trust among followers, as they may question the authenticity of the influencer's opinions.

• Fraud

A major concern when following influencers is the potential for fraud. Some individuals may artificially inflate their follower count by purchasing fake followers. This not only deceives companies looking to collaborate with influencers but also misleads consumers who rely on follower count as an indicator of credibility.

• Difficulty Finding the Right Influencers

Identifying the right influencer for a specific product can be a challenging task. It is essential to find influencers whose personality and values align with the brand they endorse. However, with the vast number of influencers available, finding the perfect fit requires thorough research and evaluation, which can be time-consuming and complex.

How to Deal with Influencers?

In today's world, we are bombarded with various viewpoints, which can be overwhelming for individuals who are unsure about their own preferences and desires.

It's important to recognize that if one is convinced about a particular point of view, there is likely an equally compelling and opposing perspective on the same matter. This saturation of views can leave consumers feeling perplexed and uncertain about whom to trust. So, how seriously should consumers take influencers?

Amidst the vast sea of information on social media platforms, it's crucial to remember that views, reviews, and recommendations (whether explicit or disguised) are not definitive. Nothing is set in stone on social media. After listening to influencers, consumers must also seek the opinions of experts in the field. It is important to differentiate between an influencer and an expert.

An influencer may have a significant following, but that doesn't automatically make them an expert. Consumers should actively seek the insights of knowledgeable individuals in order to make well-informed decisions.

Additionally, consumers must conduct their own research. Before deciding whether to purchase a product or not, they can visit stores and gauge customer responses by speaking to sales representatives or even fellow consumers.

The perspectives of a small yet trustworthy circle of friends can also be valuable. Often, personal experiences shared by loved ones who have used a particular product can be more helpful than relying solely on the opinions of strangers.

Furthermore, consumers should be vigilant about the actions and lifestyle choices of influencers. If an influencer recommends one brand while using a different brand within the same industry, it raises questions about their integrity. This blurs the line between promoting a product and genuinely recommending it based on personal conviction and experience.

Typically, such influencers have

a short-lived influence as audiences or consumers detect their lack of sincerity.

Consumers need to adopt a clear approach when considering views and recommendations on social media platforms, treating them as starting points for deeper investigation. Only then can consumers derive meaningful value and avoid being passive recipients of information.

Lastly, consumers must consider the quality of engagement of an influencer. Let's consider an example: a well-known fitness expert with less than one million followers on Instagram versus a popular actor known for their physique with over three million followers.

It's not necessary that the actor's recommendations would result in increased sales of fitness products. On the other hand, the recommendations of the fitness expert may have a higher impact. This shows the concept of the quality of engagement. Therefore, understanding and evaluating the influence of influencers on product sales is important.

By maintaining a discerning mindset, conducting personal research, considering expert opinions, evaluating integrity, and assessing the quality of engagement, consumers can navigate the realm of influencers more effectively. They can then make decisions that align with their preferences and values, avoiding undue influence and making meaningful choiceS.

INSURANCE, TAILOR-MADE

Innovative offerings from insurance companies reflect the growing demand for DIY insurance options in India

In a rapidly changing world full of uncertainties, insurance has become essential for safeguarding one's financial well-being. While traditional insurance policies are the norm in India, a new trend is emerging: DIY (Do-It-Yourself) insurance.

This innovative approach empowers individuals to take control of their financial security by customizing coverage plans, selecting tailored policies, and independently managing their insurance portfolios.

This article explores the significance of DIY insurance in India and highlights its benefits for individuals.

FLEXIBILITY AND CUSTOMIZATION

DIY insurance enables individuals to personalize and tailor their insurance coverage based on their specific requirements. Unlike conventional insurance plans that typically offer pre-determined coverage options, DIY insurance empowers policyholders to choose and customize the type and level of coverage that best aligns with their needs. This adaptability ensures that individuals only pay for the coverage they truly need, avoiding unnecessary expenses while optimizing the protection of their assets.

COST-EFFECTIVENESS

By eliminating intermediaries and facilitating direct interaction between insurers and policyholders, DIY insurance eliminates commission fees and administrative expenses typically linked with traditional insurance policies. This streamlined approach results in reduced premiums and more economical insurance alternatives for individuals. DIY insurance empowers individuals to compare numerous policies, evaluate various insurers, and choose the most cost-efficient options available in the market.

TAILORED COVERAGE

The DIY insurance model offers policyholders the flexibility to customize their coverage to suit their unique circumstances. Whether it pertains to home insurance, auto insurance, health insurance, or any other form of coverage, individuals have the freedom to tailor their policies according to their specific requirements. For example, someone residing in an area prone to floods can opt for supplementary coverage against natural disasters, while an individual with a high-value vehicle may choose comprehensive coverage. This personalized approach guarantees that individuals receive sufficient protection for their assets and interests.

ENHANCED TRANSPARENCY

DIY insurance fosters transparency by providing individuals with direct access to policy information, terms, and conditions. Policyholders have the opportunity to review in-depth details, such as coverage limits, deductibles, and exclusions, before finalizing their purchase.

This transparent approach builds trust between insurers and individuals, guaranteeing that policyholders are fully aware of their coverage and the associated costs.

Moreover, DIY insurance platforms often offer user-friendly explanations of insurance terminology, empowering individuals to make informed decisions with confidence.

EFFICIENT CLAIMS MANAGEMENT

One of the primary benefits of DIY insurance is its streamlined claims process. By offering direct access to policy information and online claims filing options, individuals can initiate and manage claims with ease and efficiency. DIY insurance platforms often provide digital tools and resources that facilitate the claims process, minimizing paperwork and saving valuable time. These effective claims management practices guarantee swift resolution and reimbursement, providing policyholders with peace of mind during stressful situations.

EMPOWERMENT AND OWNERSHIP

DIY insurance empowers individuals to assume responsibility for their financial security by actively participating in insurance decisions. This heightened engagement improves individuals' understanding of their risks, requirements, and the range of options available, promoting financial literacy and accountability.

In a dynamic and unpredictable world, the significance of DIY insurance in India cannot be overstated. Its capacity to personalize coverage, lower expenses, and offer greater transparency empowers individuals to safeguard their financial interests effectively.

By embracing the DIY insurance approach, individuals attain control over their insurance portfolios, guaranteeing comprehensive protection and peace of mind.

Several insurance companies in India have recognized the value of DIY insurance and have started offering related options.

Future Generali India Insurance Company: One notable example is Future Generali India Insurance Company, a leading private general insurance player. They recently introduced a groundbreaking health insurance product called D.I.Y HEALTH. This unique offering provides unparalleled flexibility and freedom to customers, allowing them to select coverage based on their specific needs.

D.I.Y HEALTH stands out as one of the most comprehensive products available, offering a base plan with 17 key features, complemented by a wide array of 20 modular features.

Some key features of the D.I.Y. plan include:
• Cumulative Bonus Booster where thee sum insured can increase up to 600% over time
• Accident and Critical Illness Booster
• Coverage for non-medical and consumable expenses
• Personal Accident Death Cover
• Comprehensive OPD cover for a sum insured of ₹5 lakh and above
• Screening and vaccination benefits
• Coverage for up to 15 family members

Additionally, optional covers such as maternity, pre- and post-natal, ambulance (air/road), critical illness booster, convalescence benefit, and accidental death cover are available to further customize the policy.

The development of the D.I.Y HEALTH product aligns with insights from a recent survey conducted by Future Generali India Insurance Company. The survey, conducted by Unomer and covering 1,500+ respondents across 14 Indian cities, revealed that customization is a critical feature for health insurance customers. Many respondents expressed a willingness to pay an additional premium for customized coverage.

Future Generali is focusing on innovative customer propositions. Previously, they introduced products such as FG Dog Health cover and FG Health Absolute, as well as extended the definition of "family" in their health offerings to include members of the LGBTQIA+ community, a pioneering initiative within the industry.

Future Generali India Insurance company plans to leverage its online distribution channels and partner distributors to raise awareness and drive adoption of the D.I.Y HEALTH product.

They have also launched an upcoming multi-platform advertising and marketing campaign to promote the product to a wider audience.

HDFC ERGO General Insurance: HDFC ERGO is another prominent general insurance company in India that has introduced DIY insurance options. They offer a wide range of insurance products, including motor insurance, health insurance, travel insurance, and home insurance. Their online portal allows customers to customize and purchase policies online.

Policybazaar: Policybazaar is also a leading online insurance aggregator in India that allows individuals to compare and purchase insurance policies from multiple insurers. They offer a user-friendly platform that enables customers to customize their coverage options according to their needs.

BENEFITS TO INSURANCE COMPANIES

There are several benefits of DIY insurance for both customers and insurance companies.

Reduced Administrative Costs: DIY insurance eliminates the need for extensive paperwork and reduces administrative overhead associated with traditional insurance policies. Insurers can streamline their operations and allocate resources more efficiently, leading to cost savings.

Improved Customer Acquisition and Retention: DIY insurance platforms attract tech-savvy customers who prefer the convenience of online transactions and self-service options. By providing user-friendly interfaces and empowering customers to make their own choices, insurers can attract a broader customer base and improve customer retention rates.

Enhanced Customer Data and Insights: DIY insurance platforms generate vast amounts of customer data, including preferences, coverage choices, and behavioural patterns. Insurers can leverage this data to gain insights into customer needs, tailor products, and personalize offerings, thereby improving customer satisfaction and loyalty.

Efficient Claims Management: DIY insurance streamlines the claims process by allowing customers to initiate and manage claims online. Insurers benefit from reduced paperwork, faster claims processing, and improved customer satisfaction. Digital tools and automated processes also help detect fraudulent claims more effectively.

Cost-Effective Product Development: DIY insurance enables insurers to introduce new insurance products or modify existing ones quickly. Insurers can adapt coverage options based on customer feedback, market trends, and emerging risks. This agility allows insurers to stay competitive and responsive to changing customer demands.

IS DIY INSURANCE THE FUTURE?

While the DIY insurance model has gained popularity in recent years, it is difficult to predict with certainty whether it will completely replace traditional insurance models in the future. However, DIY insurance is likely to play a significant role in shaping the insurance industry. Here's why:

Growing Digitalization: As technology continues to advance, more individuals are embracing digital platforms and online transactions. DIY insurance aligns with this trend, providing individuals with the flexibility and convenience they seek.

Empowered Consumers: Customers today seek control and customization in their interactions with businesses. DIY insurance empowers consumers to actively participate in the insurance process, fostering a sense of ownership and aligning with changing customer expectations.

Cost-Effectiveness And Efficiency: DIY insurance reduces administrative costs, enhances operational efficiency, and offers cost-effective solutions to its customers. As insurance companies strive to optimize their operations and provide competitive offerings, the appeal of the DIY insurance model is likely to increase in times to come.

Technological Advancements: Advancements in artificial intelligence, machine learning, and data analytics enable insurers to leverage customer data effectively. This allows for personalized product offerings, efficient risk assessment, and improved customer experiences.

While DIY insurance presents several benefits and aligns with evolving customer preferences, it is important to note that there will always be a need for traditional insurance models, particularly for complex risks and specialized coverage.

The coexistence of both models is likely in the future, with insurers adapting to cater to a diverse range of customer preferenceS.

MILKING MARGINS

During market volatility, investors can benefit from arbitrage funds that capitalize on pricing disparities to generate returns

Risk appetite is an essential parameter that determines the asset class mix and investment choices for investors. Debt funds are a suitable option for individuals with a low-risk appetite, seeking steady and reasonably secure returns.

There is a type of fund that is not categorized as debt but exhibits the characteristics of a debt fund, such as relatively low risk and predominantly stable returns. These funds are commonly referred to as arbitrage funds

Arbitrage funds operate similarly to debt funds, offering relatively stable returns. These funds enjoy more favorable tax treatment compared to regular debt funds and are particularly suitable for short-term investments.

WHAT ARE ARBITRAGE FUNDS?

Arbitrage funds are funds that generate returns by capitalizing on the price disparity of a security between two markets. This disparity could be observed in the price of a security between two exchanges, such as the BSE and the NSE, or between two segments of the market, such as the cash market and the futures market.

Here, it is important to note that price disparities are short-term opportunities that can be advantageous to the fund manager if identified promptly and acted upon swiftly.

This approach to generating returns differs from the conventional style of investing, where an asset or security is bought with the objective of appreciation and/or providing regular returns in the form of a coupon. In an arbitrage fund, the fund manager will only invest if there is a price disparity and an opportunity to earn returns. Hence, there is no exposure risk to equities as the fund manager buys in one market and sells simultaneously in another.

The opportunities for investment are influenced by volatility, and empirical evidence suggests that higher volatility in equity markets tends to offer greater arbitrage opportunities.

In cases where there are insufficient arbitrage options available, the fund may invest in short-term money market instruments and debt securities, albeit with not less than 65% exposure in equity markets, as the regulation so demands because it is categorized as equity funds for tax treatment purposes.

It's important to note that there is no assurance of returns, as is the case with any mutual fund scheme. However, historically, arbitrage funds have provided average returns ranging from 4% p.a. and 6% p.a.

HOW DOES AN ARBITRAGE FUND FUNCTION?

Spotting price disparities in securities between two markets or exchanges to generate returns is the goal of an arbitrage fund.

To illustrate this, let's consider an example in the cash market. Company PQR is listed on the BSE, and its current trading price is ₹600. However, the same security is trading on the NSE at ₹590. In this scenario, an arbitrage opportunity arises for the fund manager. He/she can buy PQR on the NSE at ₹590 and simultaneously sell it on the BSE at ₹600, earning a profit of ₹10 per share, excluding transaction costs.

Similarly, if the share price of company ABC in the BSE cash market is ₹1,000, but in the NSE futures market, it is trading at ₹1,150, then there is a trading opportunity for the arbitrage fund manager. He/she can buy ABC on the BSE exchange and sell it simultaneously on the NSE futures market, where the price is higher. At the time of expiry, the cash and spot market prices will converge, allowing the fund manager to earn risk-free profit.

A similar trade can be carried out by the fund manager if there is a price difference between index level futures, such as Nifty 50 and the basket of stocks that comprise the index.

Due to the nature of arbitrage funds, where securities are bought and sold within the same contract rather than being held for extended periods due to undervaluation or potential re-rating, there is no advantage of investing through SIPs, which rely on rupee cost averaging.

Arbitrage funds are primarily focused on capturing gains from short-term price discrepancies between two markets, rather than on value investing. Consequently, lump sum investments can be made.

The short-term nature of trades carried out by arbitrage funds is the primary reason for the exit load imposed when liquidating investments within one month. By and large, most arbitrage funds have an exit load of 25 basis points (bps) if investors choose to liquidate their investments before the completion of one month.

THE ADVANTAGE OF TAX TREATMENT

Arbitrage funds share similarities with debt funds in terms of their low-risk nature and enjoy the same tax treatment as equity mutual funds. Investments held for less than a year are considered short-term investments, and capital gains are taxed at 15%.

In contrast to debt funds, which require investments to be held for three years or more to qualify as long-term investments, arbitrage funds only need to be held for one year or more to receive long-term investment treatment. The tax rate on capital appreciation for long-term gains is 10%, providing an advantage over debt funds.

Also, long-term capital gains up to ₹1 lakh are exempt from taxes, while sums exceeding ₹1 lakh are taxed at 10% without indexation benefit.

Arbitrage funds are categorized as equity-oriented hybrid funds, and regulations mandate a minimum of 65% equity allocation. This poses a challenge to the fund manager when arbitrage opportunities are scarce.

Considering the tax advantage enjoyed by arbitrage funds, are they more attractive than debt funds, specifically liquid funds, recommended for short-term investments?

Let's assume an arbitrage fund has earned a return of 6% over one year. As it falls under the equity category, the tax rate is 10%, resulting in post-tax returns of 5.4%. However, for debt funds, which would be categorized as short-term gains, the net return would be lower at 5.1%, a 30 basis points (bps) difference from the gross return of 6%.

This tax advantage is a benefit that arbitrage funds have over liquid funds. However, it's worth noting that while liquid funds provide payouts within a day upon sale, arbitrage funds may take slightly longer, typically around three days.

The performance of arbitrage funds is not affected by market cycles - bull runs or bear runs, as long as volatility persists. Mispricing opportunities exist across market cycles if there is volatility, providing arbitrage opportunities to the fund manager.

However, in very stable market conditions, the performance of arbitrage funds may be impacted, potentially underperforming debt funds like liquid funds.

WHO SHOULD INVEST IN ARBITRAGE FUNDS?

The risks associated with arbitrage funds is low as securities are bought and sold simultaneously, eliminating any exposure risk. Those looking to invest in low-risk products for a short period will find value in arbitrage funds.

The categorization of arbitrage funds as long-term for taxation, if held for a year or longer, provides them with an advantage over debt funds like liquid funds, also used for short-term investments. Arbitrage funds also offer an edge over short-term fixed deposits owing to liquidity. Although arbitrage funds may have an exit load for very short-term exits, they still provide investors with a convenient and easily redeemable option, especially in volatile market conditionS.

REGULATORY OVERHAUL

SEBI to revamp the mutual fund TER for investor benefit; final circular to be issued soon

In May, the Securities and Exchange Board of India (SEBI) came out with a consultation paper on the total expense ratio (TER) charged by asset management companies (AMC) in India.

Since 2012, the market regulator has reviewed and made changes to provisions related to the fees and expenses charged by mutual fund houses. These changes include the introduction of direct plans, the fungibility of the total expense ratio, and additional expenses for net inflows from B-30 cities.

To enhance transparency and consistently align regulatory provisions with market dynamics and the best interests of investors, the market regulator conducted a comprehensive study on fees and expenses. SEBI determined that there was a requirement for further streamlining of provisions pertaining to TER.

CHANGES IN TER

In its consultation paper, SEBI stated that despite the maximum limit of the total expense ratio, there have been instances where the actual expenses borne by the investor exceeded the prescribed base TER limits for the regular plan.

For instance, fund houses can levy a TER of 2.25% for the initial ₹ 500 crore of the equity scheme's daily net assets. However, the weighted average TER, which includes all additional expenses, paid by investors in the regular plan was 2.78%, surpassing the limit of 2.23%.

Despite the presence of various mutual funds with significantly large assets in schemes oriented towards retail investors (equity and hybrid schemes), the total expense ratio charged is mostly close to the prescribed regulatory limits.

However, in the case of debt schemes, where investors are mostly corporate and possess bargaining power, the total expense ratio is much lower than the prescribed limit.

Therefore, it seems that the benefits of economies of scale in the debt schemes are passed on to the investors, unlike in equity and hybrid schemes.

Mutual funds are currently permitted to charge four additional types of expenses over and above the specified TER limits. However, the paper says that the TER should, in the interest of transparency, be inclusive of the total expenses charged to investors at any point in time.

Thus, it is desirable that the TER reflect the maximum expense ratio that an investor may have to pay. Therefore, it should be inclusive of all the expenses permitted to be charged to an investor. The investor should not be charged any amount over and above the prescribed TER limits.

ADDITIONAL EXPENSES CHARGED BY MUTUAL FUNDS

Currently, mutual funds are allowed to charge four additional expenses that are not included in the total expense ratio.

These expenses are: brokerage and transaction costs, up to 0.30% of daily net assets (these costs are incurred by the fund when buying and selling securities); Exit load, up to 0.05% of daily net assets (this is a fee charged when you sell your shares in a mutual fund); GST on investment and advisory fees, up to 0.05% of daily net assets (this is the Goods and Services Tax charged on investment and advisory fees).

These four additional expenses are over and above the TER, and are only allowed for funds that receive new inflows from B-30 cities, which are cities outside of the top 30 cities in India.

Brokerage and transaction costs are part of the recurring expenses that mutual funds can charge. The limit for these fees is 0.12% of the trade value for cash market transactions and 0.05% for derivative transactions.

However, some funds have been spending more than even the maximum TER limits on these fees, which means that investors have been paying more than double the permissible fees.

In light of the aforementioned principle that total expense ratio should encompass all costs imposed on an investor, it is suggested that brokerage and transaction expenses could be incorporated within the TER limit.

Consequently, the transaction-specific limits set for additional expenses related to brokerage may not be applicable. This proposal aims to enhance transparency regarding the costs borne by unit holders.

Industry discussions in the past have also highlighted the exclusion of the Securities Transaction Tax (STT) component from the transaction costs of cash and derivative transactions, which are presently subject to the limits of 12 bps or 5 bps. Therefore, in the proposed framework, all investment expenses and costs, including STT, would fall within the TER limits.

REVIEW OF TER STRUCTURE

In the above points, we have discussed how TERs might change, going forward. SEBI also points out that while the TER slabs are presently based on the Assets Under Management (AUM) of schemes, the Asset Management Companies (AMCs) enjoy economies of scale, which are linked to their asset class levels and not schemes.

While the size of the asset grows, the cost of investment may not increase in the same proportion, resulting in economies of scale as the Assets Under Management (AUM) significantly increases.

This is because the consolidated revenue of AMCs increased by 55.27% from ₹11,397 crores to approximately ₹17,697 crores over a span of 5 years (FY16-17 to FY21-22). Additionally, the profits before tax (PBT) of AMCs increased by 154%, from ₹4,302 crores to ₹10,940 crores during the period under discussion.

At the same time, there is a need for all sizes of AMCs to have an opportunity to grow. Additionally, there exists an arbitrage opportunity between different schemes of the same AMC due to scheme-level slabs. This occurs when a new scheme (New Fund Offer or NFO) with small Assets Under Management (AUM) can charge a higher Total Expense Ratio (TER) compared to existing large schemes of the AMC with bigger AUMs.

Because AMCs can offer higher commissions to distributors for NFO schemes, it often leads to switch transactions from existing large AUM schemes. In these existing schemes, the average TER that can be charged is less compared to NFO schemes where a higher TER can be charged. Consequently, AMCs can end up charging a higher TER without a substantial increase in AUM or the number of investors.

Therefore, it is proposed that the TER slabs be defined at the level of the AMC, rather than at the scheme level. The AUM of open-ended schemes, where slab-based TER is currently applicable, may be categorized into equity-based AUM (including equity and equity-related instruments) and other than equity-based AUM of the AMC (which excludes equity and equity-related instrumentS).

MUTUAL FUND BLACKBOARD

Large Cap Funds

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		1 Year	3 Years	5 Years	7 Years	10 Years	
Invesco India Largecap Fund - Growth	47.4	25.2	21.6	11.2	12.1	14.1	774
UTI Mastershare Unit Scheme - Growth	202.8	20.9	21.8	11.5	12.3	13.9	10,900
Canara Robeco Bluechip Equity Fund - Growth	44.4	23.7	21.3	13.9	14.4	14.6	9,600
Kotak Bluechip Fund - Reg - Growth	402.5	23.6	23.0	12.6	12.5	14.3	5,858
Nifty 100 TRI	25,150.4	22.7	23.2	12.5	13.7	14.3	--

Mid Cap Funds

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		1 Year	3 Years	5 Years	7 Years	10 Years	
Tata Mid Cap Growth Fund - Reg - Growth	277.9	33.3	28.9	16.4	15.8	19.9	2,026
Edelweiss Mid Cap Fund - Growth	58.6	36.5	34.7	16.1	17.1	21.3	3,011
Mirae Asset Midcap Fund - Reg - Growth	23.2	29.3	33.4	--	--	--	9,748
Nippon India Growth Fund - Reg - Growth	2,428.7	36.2	34.6	17.3	17.1	18.8	15,165
Kotak Emerging Equity Fund - Reg - Growth	83.7	32.3	33.7	16.5	16.8	21.6	27,871
Nifty Midcap 150 TRI	16,599.3	39.3	34.8	16.0	17.7	20.1	--

Small Cap Funds

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		1 Year	3 Years	5 Years	7 Years	10 Years	
Kotak Small Cap Fund - Reg - Growth	182.7	29.6	42.3	19.1	18.4	21.5	9,883
Edelweiss Small Cap Fund - Reg - Growth	28.7	38.3	41.4	--	--	--	1,756
Nippon India Small Cap Fund - Reg - Growth	107.9	46.7	46.9	20.4	22.2	27.8	28,779
ICICI Prudential Smallcap Fund - Growth	61.4	34.6	43.1	18.9	17.6	18.0	5,466
Union Small Cap Fund - Reg - Growth	33.5	34.3	38.6	17.1	15.7	--	821
Nifty Smallcap 250 TRI	13,163.3	38.7	38.9	12.9	14.1	18.4	--

Large & Mid Cap Funds

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		1 Year	3 Years	5 Years	7 Years	10 Years	
Tata Large & Mid Cap Fund - Reg - Growth	386.9	33.8	26.3	15.4	14.2	16.3	4,348
Canara Robeco Emerging Equities - Growth	172.5	23.7	25.5	13.3	15.8	21.9	16,791
Edelweiss Large & Mid Cap Fund - Growth	58.0	28.8	26.8	13.8	14.3	15.8	1,937
Kotak Equity Opportunities Fund - Reg - Growth	226.6	31.6	26.2	14.9	15.3	17.1	13,128
Mahindra Manulife Large & Mid Cap Fund - Reg	18.6	27.1	28.1	--	--	--	1,186
NIFTY Large Midcap 250 TRI	13,814.6	30.8	29.0	14.3	15.8	17.3	--

Multicap Funds

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		1 Year	3 Years	5 Years	7 Years	10 Years	
Mahindra Manulife Multi Cap Fund - Reg - Growth	22.7	31.4	29.7	16.6	--	--	1,719
HDFC Multi Cap Fund - Reg - Growth	12.3	39.2	--	--	--	--	6,627
Kotak Multicap Fund - Reg - Growth	11.5	36.0	--	--	--	--	4,456
Nippon India Multi Cap Fund - Reg - Growth	187.1	42.4	37.0	15.8	14.9	16.8	16,190
S&P BSE 500 TRI	32,167.5	26.3	26.1	13.3	14.5	15.3	--

FlexiCap Funds

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		1 Year	3 Years	5 Years	7 Years	10 Years	
Canara Robeco Flexi Cap Fund - Growth	239.5	23.9	22.9	13.9	15.0	15.0	9,464
Mirae Asset Flexi Cap Fund - Reg - Growth	11.0	--	--	--	--	--	846
UTI Flexi Cap Fund - Growth	247.8	19.5	22.5	12.3	13.4	15.2	25,319
Union Flexi Cap Fund - Growth	36.2	26.0	25.1	13.9	13.4	13.4	1,470
Parag Parikh Flexi Cap Fund - Reg - Growth	54.9	28.5	27.7	17.7	18.0	18.7	35,965
S&P BSE 500 TRI	32,167.5	26.3	26.1	13.3	14.5	15.3	--

Focused Funds

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		1 Year	3 Years	5 Years	7 Years	10 Years	
HDFC Focused 30 Fund - Growth	143.5	33.6	31.9	13.2	13.0	15.6	4,783
Nippon India Focused Equity Fund - Reg - Growth	85.3	24.5	28.7	13.1	13.9	19.1	6,359
ICICI Prudential Focused Equity Fund - Ret - Growth	55.9	28.5	25.9	13.9	13.4	14.8	4,294
Mahindra Manulife Focused Fund - Reg - Growth	16.9	26.0	--	--	--	--	736
S&P BSE 500 TRI	32,167.5	26.3	26.1	13.3	14.5	15.3	--

Dividend Yield Funds

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		1 Year	3 Years	5 Years	7 Years	10 Years	
ICICI Prudential Dividend Yield Equity Fund - Reg	31.6	30.3	33.5	13.1	14.3	--	1,542
Sundaram Dividend Yield Fund - Growth	93.6	23.2	23.9	12.3	15.1	15.2	461
UTI Dividend Yield Fund - Growth	111.1	22.7	23.6	12.1	12.9	13.3	2,922
S&P BSE 500 TRI	32,167.5	26.3	26.1	13.3	14.5	15.3	--

Contra/Value Funds

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		1 Year	3 Years	5 Years	7 Years	10 Years	
Bandhan Sterling Value Fund - Reg - Growth	102.7	33.7	40.1	13.6	16.5	18.0	5,788
SBI Contra Fund - Growth	252.7	35.6	41.3	17.8	16.1	16.5	10,565
Nippon India Value Fund - Reg - Growth	137.3	29.5	29.1	13.9	14.8	16.4	5,051
S&P BSE 500 TRI	32,167.5	26.3	26.1	13.3	14.5	15.3	--

ELSS Funds

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		1 Year	3 Years	5 Years	7 Years	10 Years	
UTI Long Term Equity Fund (Tax Saving) - Growth	150.3	24.0	23.1	12.2	12.5	14.1	3,009
Canara Robeco Equity Tax Saver Fund - Growth	124.2	25.0	26.0	15.6	15.6	16.2	5,473
Kotak Tax Saver Fund - Reg - Growth	81.4	30.2	26.4	14.9	15.0	16.5	3,687
Mahindra Manulife ELSS Fund - Reg - Growth	20.8	28.2	27.1	12.5	--	--	592
Parag Parikh Tax Saver Fund - Reg - Growth	21.3	25.2	28.2	--	--	--	1,642
Tata India Tax Savings Fund - Reg - Growth	30.9	26.1	24.0	12.4	13.6	--	3,253
S&P BSE 200 TRI	10,219.6	25.1	25.2	13.3	14.4	15.1	--

Thematic / Sector Funds

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		1 Year	3 Years	5 Years	7 Years	10 Years	
Mirae Asset Great Consumer Fund - Growth	66.2	35.4	27.9	14.9	17.1	17.9	2,305
ICICI Prudential Banking and Financial Services Fund	95.8	32.1	26.6	10.1	13.7	16.4	6,653
Nippon India Pharma Fund - Reg - Growth	308.2	20.9	17.6	16.2	13.1	15.9	4,565
Quant Quantamental Fund - Reg - Growth	15.3	46.2	--	--	--	--	668
Tata Digital India Fund - Reg - Growth	33	12.9	33.2	18.7	17.9	--	7254
S&P BSE 500 TRI	32,167.5	26.3	26.1	13.3	14.5	15.3	--

Arbitrage Funds

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		3 Months	6 Months	1 Year	2 Years	3 Years	
Bandhan Arbitrage Fund - Reg - Growth	28.1	7.4	7.1	5.8	4.5	4.2	3,325
Kotak Equity Arbitrage Fund - Reg - Growth	32.3	7.4	7.2	5.9	4.9	4.5	21,660
Tata Arbitrage Fund - Reg - Growth	12.4	7.2	7.0	5.7	4.5	4.3	6,251
Invesco India Arbitrage Fund - Growth	27.6	7.4	7.2	6.2	5.0	4.5	4,452
Edelweiss Arbitrage Fund - Reg - Growth	16.8	7.1	7.0	5.7	4.7	4.3	5,082

Equity Savings Funds

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		1 Year	3 Years	5 Years	7 Years	10 Years	
Edelweiss Equity Savings Fund - Reg - Growth	19.7	11.8	10.4	8.2	8.4	--	264
HDFC Equity Savings Fund - Growth	52.5	13.4	14.0	8.5	9.6	9.6	2,622
Kotak Equity Savings Fund - Reg - Growth	20.5	13.5	11.9	8.6	8.9	--	2,369
NIFTY 50 Hybrid Composite Debt 65:35 Index	15948.6	18.6	17.4	11.9	12.1	12.2	--

Dynamic Asset Allocation Funds

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		1 Year	3 Years	5 Years	7 Years	10 Years	
Kotak Balanced Advantage Fund - Reg - Growth	15.8	16.5	13.8	--	--	--	14,690
Nippon India Balanced Advantage Fund - Reg	132.7	15.4	15.0	9.2	10.6	12.0	6,791
Tata Balanced Advantage Fund - Reg - Growth	16.1	16.6	14.9	--	--	--	6,886
Edelweiss Balanced Advantage Fund - Growth	38.7	17.3	16.2	11.2	11.1	11.8	9,078
Union Balanced Advantage Fund - Reg - Growth	16.0	13.5	13.0	9.9	--	--	1,656
NIFTY 50 Hybrid Composite Debt 65:35 Index	15,948.6	18.6	17.4	11.9	12.1	12.2	--

Hybrid Aggressive Funds

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		1 Year	3 Years	5 Years	7 Years	10 Years	
Canara Robeco Equity Hybrid Fund - Growth	263.5	20.3	18.1	12.2	12.7	14.6	8,676
Kotak Equity Hybrid Fund - Growth	44.1	21.3	23.4	13.0	12.4	--	3,643
Mirae Asset Hybrid - Equity Fund - Reg - Growth	23.8	20.7	18.8	11.8	12.6	--	7,369
NIFTY 50 Hybrid Composite Debt 65:35 Index	15,948.6	18.6	17.4	11.9	12.1	12.2	--

Multi Asset Allocation Funds

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		1 Year	3 Years	5 Years	7 Years	10 Years	
HDFC Multi - Asset Fund - Growth	52.7	17.6	18.2	11.1	10.2	10.6	1,778
Nippon India Multi Asset Fund - Reg - Growth	14.5	19.5	--	--	--	--	1,231
Tata Multi Asset Opportunities Fund - Reg - Growth	17.1	19.1	19.1	--	--	--	1,597
NIFTY 50 Hybrid Composite Debt 65:35 Index	15,948.6	18.6	17.4	11.9	12.1	12.2	--

Gold Funds Funds

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		1 Year	3 Years	5 Years	7 Years	10 Years	
HDFC Gold Fund - Growth	18.3	14.9	6.3	12.7	8.9	6.7	1,554
Kotak Gold Fund - Reg - Growth	23.6	14.2	6.0	13.0	9.1	6.7	1,541
Nippon India Gold Savings Fund - Reg - Growth	23.5	14.8	6.1	12.6	8.8	6.6	1,551
Prices of Gold	59,023.0	16.2	7.5	14.0	10.2	8.1	--

Overnight Funds

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		2 Weeks	1 Month	3 Months	1 Year	YTM	
Bandhan Overnight Fund - Reg - Growth	1,206.8	6.3	6.2	6.4	5.9	6.25	1,132
Tata Overnight Fund - Reg - Growth	1,194.2	6.3	6.2	6.4	5.9	6.28	3,450
Nippon India Overnight Fund - Reg - Growth	121.6	6.4	6.3	6.5	6.0	6.28	7,577

Liquid Funds

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		2 Weeks	1 Month	3 Months	1 Year	YTM	
Aditya Birla Sun Life Liquid Fund - Reg - Growth	365.3	6.5	6.7	7.2	6.4	6.96	46,507
Mirae Asset Cash Management Fund - Growth	2,377.5	6.5	6.7	7.1	6.4	6.88	7,107
Kotak Liquid Fund - Reg - Growth	4,585.9	6.5	6.6	7.1	6.3	6.83	37,631
Nippon India Liquid Fund - Reg - Growth	5,535.9	6.5	6.6	7.1	6.3	6.87	24,687
Mahindra Manulife Liquid Fund - Reg - Growth	1,475.0	6.6	6.7	7.1	6.4	6.95	428

Ultra Short Funds

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		3 Months	6 Months	1 Year	3 Years	YTM	
HDFC Ultra Short Term Fund - Reg - Growth	13.1	7.7	7.1	6.4	4.7	7.31	13,705
ICICI Prudential Ultra Short Term Fund - Growth	24.0	7.7	7.1	6.4	5.1	7.45	12,979
Kotak Savings Fund - Reg - Growth	37.3	7.5	7.0	6.3	4.4	7.35	13,055

Money Market Funds

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		3 Months	6 Months	1 Year	3 Years	YTM	
HDFC Money Market Fund - Growth	4,926.8	8.1	7.5	6.7	4.8	7.35	15,866
Tata Money Market Fund - Reg - Growth	4,065.1	8.2	7.6	6.8	4.9	7.31	10,908

Low Duration Funds

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		3 Months	6 Months	1 Year	3 Years	YTM	
HDFC Low Duration Fund - Growth	49.9	8.2	7.1	6.7	5.1	7.73	14,352
ICICI Prudential Savings Fund - Reg - Growth	465.6	8.6	7.6	7.7	5.5	7.84	17,852
Kotak Low Duration Fund - Std - Growth	2,902.1	7.8	6.9	6.5	4.8	7.64	8,812

Floater Funds

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		3 Months	6 Months	1 Year	3 Years	YTM	
Kotak Floating Rate Fund - Reg - Growth	1,287.2	8.1	6.9	6.9	5.7	7.71	4,904
Tata Floating Rate Fund - Reg - Growth	11.0	8.0	7.2	6.5	--	7.74	222

Short Term Funds

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		3 Months	6 Months	1 Year	3 Years	YTM	
HDFC Short Term Debt Fund - Growth	27.3	9.2	7.5	7.0	5.5	7.64	12,321
HSBC Short Duration Fund - Reg - Growth	22.8	8.3	7.0	6.3	4.2	7.34	3,549
ICICI Prudential Short Term Fund - Growth	51.5	8.9	7.5	8.0	5.8	7.86	17,906

Corporate Bond Fund

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		3 Months	6 Months	1 Year	3 Years	YTM	
ICICI Prudential Corporate Bond Fund - Reg - Growth	25.5	9.1	7.7	7.8	5.7	7.84	21,489
HDFC Corporate Bond Fund - Growth	27.7	10.0	7.6	7.6	5.4	7.60	27,076
Kotak Corporate Bond Fund - Std - Growth	3,223.8	9.2	7.2	6.9	5.2	7.61	10,152

Dynamic Bond Funds

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		3 Months	6 Months	1 Year	3 Years	YTM	
ICICI Prudential All Seasons Bond Fund - Growth	31.5	9.7	7.9	9.1	5.9	7.88	10,427
Nippon India Dynamic Bond Fund - Reg - Growth	31.9	13.2	8.8	9.1	4.4	7.42	4,493
Kotak Dynamic Bond Fund - Reg - Growth	31.9	9.6	6.1	7.2	4.7	7.55	2,569

Medium Duration Funds

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		3 Months	6 Months	1 Year	3 Years	YTM	
ICICI Prudential Medium Term Bond Fund - Growth	38.3	9.3	7.5	7.8	6.7	8.01	6,597
HDFC Medium Term Debt Fund - Growth	48.4	9.9	7.6	7.5	6.1	7.85	4,203
SBI Magnum Medium Duration Fund - Growth	43.9	10.2	8.2	7.7	5.7	7.79	7,169

Long duration Funds

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		3 Months	6 Months	1 Year	3 Years	YTM	
Nippon India Nivesh Lakshya Fund - Reg - Growth	15.2	13.7	11.1	12.6	4.4	7.21	6310

Gilt Funds

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		3 Months	6 Months	1 Year	3 Years	YTM	
Kotak Gilt Fund - Growth	83.4	9.7	7.9	8.5	4.2	7.52	2,410

Gilt Fund with 10 year constant duration

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		3 Months	6 Months	1 Year	3 Years	YTM	
ICICI Prudential Constant Maturity Gilt Fund	20.9	13.5	10.0	9.4	4.4	7.11	2,203

Credit Risk Fund

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		3 Months	6 Months	1 Year	3 Years	YTM	
ICICI Prudential Credit Risk Fund - Growth	26.9	8.1	6.7	7.1	7.0	8.48	7,824
HDFC Credit Risk Debt Fund - Reg - Growth	20.6	8.7	7.0	7.1	7.2	8.40	8,560
SBI Credit Risk Fund - Growth	39.1	13.9	9.9	8.3	6.6	7.92	2,806

Banking & PSU Bond Funds

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		3 Months	6 Months	1 Year	3 Years	YTM	
Edelweiss Banking & PSU Debt Fund - Reg - Growth	21.2	11.5	7.8	8.5	5.3	7.18	370
HSBC Banking and PSU Debt Fund - Growth	21	8.7	7	6.8	4.1	7.27	4795

Disclaimer : Mutual Fund Investments are subject to market risks. Please read the offer document carefully before investing. Past performance is no guarantee of future performance. Returns are of Growth option of Regular plans. Returns which are below 1 year period are Annualized Returns. Source: - ICRA MFI, NAV as on 20th June 2023

TECHNICAL OUTLOOK

In June, the bulls led the rally, but they might face strong resistance at the 18,880-18,900 mark on a closing basis. As long as the Nifty sustains below this level, we are likely to witness a volatile trading session in the coming days. During this time, there may be some minor downfalls towards the 18,500/18,100 support level. Although the sentiment on D-Street was cautious to positive, the stocks were performing well, and a pullback rally was observed, driving the Nifty's upward movement.

The weekly chart indicates that the Nifty is currently facing strong resistance levels between 18,880 and 18,940 on a closing basis. Any move above the 18,900 mark would signal a positive rally towards 18,900/19,370 levels. On the other hand, the Nifty has strong support at the 18,500 mark. If it fails to hold this support level on a closing basis, we may witness a further sell-off, potentially taking the Nifty towards 18,100/17,800 levels.

The daily momentum indicator has experienced a negative crossover, indicating a potential correction or consolidation in the index. The overall market outlook remains cautious as profit booking has been observed at higher levels, and some volatility can still be expected. Traders should consider taking profits during rallies and look for opportunities to buy on dips. Any dip towards 18,500/18,200 will contribute to strengthening the Nifty.

The Bulls will become more active once the Nifty breaks and maintains a positive closing above the 18,940 level for at least two trading sessions. This breakthrough will assist the Nifty in gaining strength to move further upwards towards the 19,200/19,400 mark. Market participants are advised to focus on individual stocks and be stock-specific.

Technically, the Bank Nifty has immediate support at 43,300. A close below 43,300 may extend the fall towards 43,000/42,500. On the flip side, resistance is positioned at 43,900 levels. Beyond that, the Bank Nifty may witness a strong positive rally towards 44,300-44,600 levels.

On the Nifty Options front for the July series, the highest open interest (OI) build-up is seen near the 18,800 and 19,000 Call strikes, whereas on the Put side, it is observed at the 18,500 and 18,000 strikes.

India VIX, which measures the immediate 30-day volatility in the market, has remained sideways in the range of 11-13 for the June series. Going forward, the index may remain sideways in the first part of July.

The Put Call Ratio-Open Interest (PCR-OI) for Nifty Options has been in the range of 0.7-1.2 in June. Going forward, it is expected to remain between 0.6 and 1.2 in July.

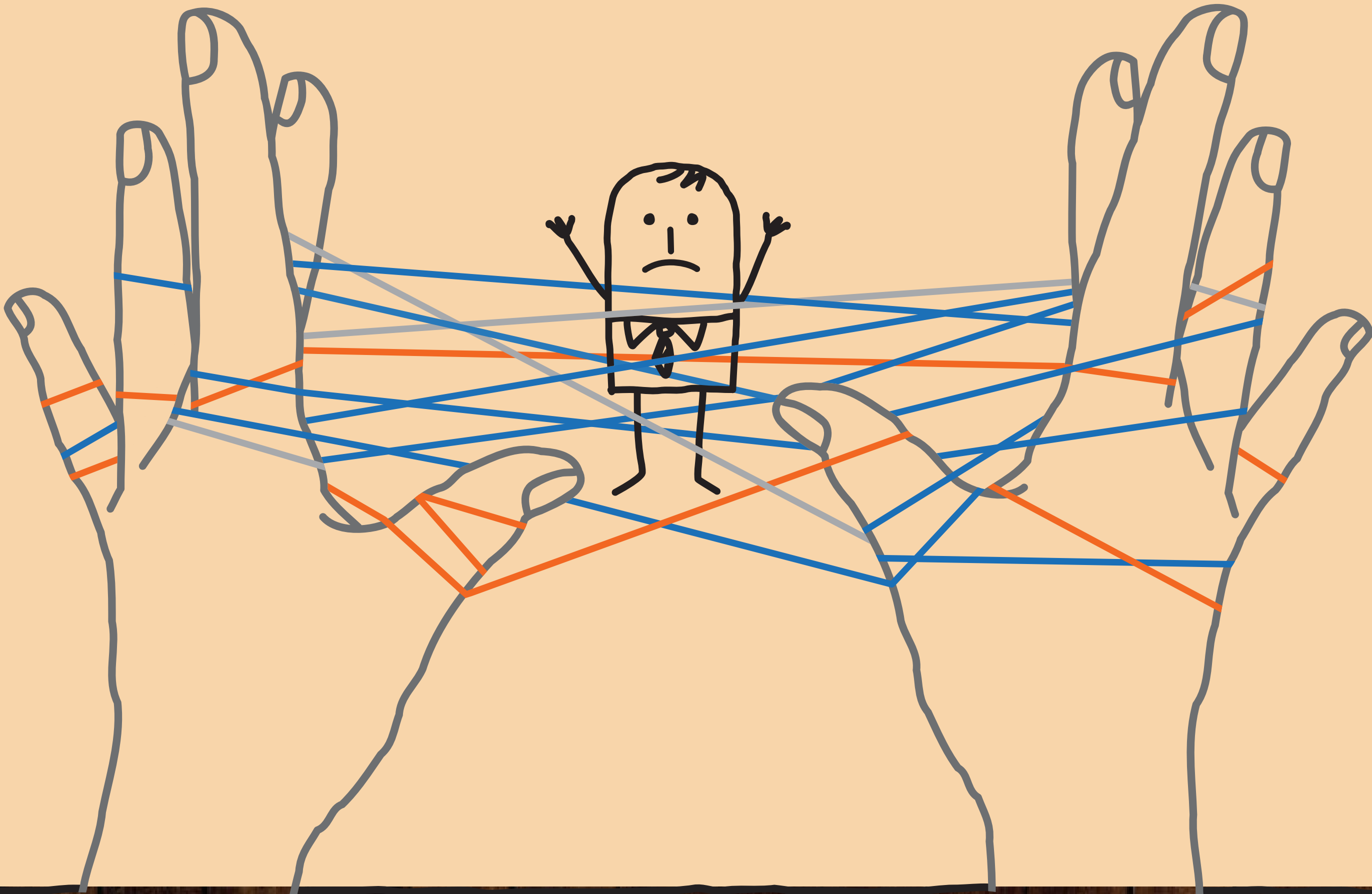
The markets are believed to remain sideways in the first half of July with supports at 18,500 and 18,000 levels; also, the markets will continue to witness some important resistances at 18,800, 19,000 and 19,500 levels.

OPTIONS STRATEGY

Bear Put Spread

It can be initiated by 'Buying 1 lot 06JUL 18700 PE (₹ 109) and Selling 1 lot 06JUL 18400 PE (₹ 34)'. The premium outflow amounts to approximately 75 points, which also represents the maximum loss and serves as a stop loss level. The maximum gain is limited to 225 points, and one can place the target at 150 points.

Based on the current options open interest (OI) positions for Nifty, it appears that the support level of 18,500-18,400 will be retested, followed by a likely bounce. Once the support level is retested, market participants are advised to book profits in the strategY.



BREAKING BARRIERS

Practicing bias-free decision making is essential for investors to avoid the mental traps of biases and achieve success in the stock market

T

he rally in the stock market has produced many new stock pickers. However, many of these investors suffer from a bias: they judge the success or failure of a stock based on its price, which is an incorrect measure of its performance. Investors should avoid this mental trap to protect their wealth.

Many investors judge the quality of their investment decisions based solely on the short-term movements of stock prices. They see rising prices as a validation of their choices and seek confirmation from others.

THE CRUX OF THE ISSUE

The adage 'a rising tide lifts all boats' holds true in the stock market, where sustained upward trends, buoyed by liquidity and sentiment, can transform every stock into a potential multi-bagger.

Consequently, identifying the next multi-bagger appears easy and gains widespread popularity. This phenomenon raises the likelihood of any investor, regardless of their knowledge, skills, temperament, or experience, assuming the role of a successful stock picker.

However, this winning streak often breeds excessive confidence, which may ultimately prove to be a mere illusion or, as Nassim Nicholas Taleb aptly described, falling victim to the hidden role of chance in life and the markets.

There are several reasons as to why judging the success or failure based on its stock price is an incorrect measure of a stock's performance. First, the stock market is an extremely volatile place, and prices are likely to fluctuate wildly. This means that even a good investment's price can go down in the short term.

Second, stock prices are not always a reflection of a company's underlying fundamentals. For example, a stock price can go up even if a company is losing money.

Finally, stock prices can be manipulated by market participants, which can make them even less reliable as a measure of performance.

CHECK YOUR BIASES

Conformation Bias: Everything Is Price

Many people suffer from confirmation bias. One common mistake that investors make is to think that they are right because their stock has gone up in price.

For example, let's say that you buy a stock for ₹ 100. The stock then goes up to ₹ 200. You might think that you are a genius investor because you made a 100% return on your investment.

However, the truth is that you could have just gotten lucky. The stock could have gone up for any number of reasons, and it could just as easily go down in the future.

The feeling that you can turn anything into gold has a cascading impact on the amount of money and people involved.

The consistent outperformance that is based on false assumptions gets bigger and bigger as people move forward. Ignoring mistakes, self-doubt, and overconfidence in luck-based outcomes can be disastrous.

Availability Bias

Another common bias is availability bias, which refers to the tendency of relying on readily available information instead of seeking out more comprehensive data.

For instance, an investor may base their investment decisions on recent news articles or social media posts, rather than conducting a thorough analysis of the company's financial statements and market trends.

Other Biases

Like availability bias, there are several other biases, including recency bias, social proof, anchoring, and many more, that can work together.

For instance, recency bias can cloud our judgment by causing us to focus only on recent information and results, while disregarding the broader historical context of business cycles, stock markets, and even our own ability to make rational decisions and act on strategies.

In the realm of social media platforms, another common bias that can come into play is social proof. With millions of active users on these platforms, there is a significant reach across the world, creating a powerful social proof.

This phenomenon can lead many individuals to make irrational and illogical decisions, even in areas such as investing and the stock market.

THE DANGERS OF JUDGING YOUR INVESTMENT DECISIONS BASED ON PAST PERFORMANCE

There are several dangers associated with basing investment decisions solely on past performance.

Firstly, it can lead to overconfidence as witnessing rising stock prices may inflate one's belief in their investing abilities, prompting them to take riskier bets that can ultimately result in losses.

Secondly, it can cause investors to overlook red flags as they become solely focused on positive outcomes, potentially missing warning signs of an impending stock decline.

Consequently, they may hold onto a stock for too long, resulting in financial losses.

Lastly, relying solely on past performance can lead to making emotional decisions. When confronted with falling stock prices, panic can set in, leading to hasty selling that often results in selling at a loss.

HOW TO AVOID MAKING THIS MISTAKE?

Don't Judge Your Investment Decisions Based On Past Performance

Rather than judging investment decisions solely based on past performance, it is important to shift the focus towards the future potential of the company.

As legendary investor Peter Lynch once wisely stated, "The stock market is filled with individuals who know the price of everything but the value of nothing." By prioritizing the value of a company and its potential for growth, investors can make informed decisions that significantly enhance their chances of achieving success.

It Is Important For Investors To Develop An Owner's Mindset

Cultivating an owner's mindset, which entails thinking like a business owner rather than a stock trader, is the most important aspect to follow.

As Warren Buffett aptly said, "When we own portions of outstanding businesses with outstanding managements, our favourite holding period is forever."

By adopting this perspective and placing emphasis on the long-term value of a company, investors can significantly enhance their chances of achieving success.

Do Your Research And Understand The Risks Involved

Since no investment is guaranteed, it is vital to conduct thorough research and comprehend the risks associated with investments.

Being aware of the potential for losses is essential. This entails going beyond stock prices and considering a variety of factors, including the company's financial statements, market trends, and industry outlook.

As Warren Buffett wisely said, "Risk comes from not knowing what you're doing." By dedicating time to research and gaining a comprehensive understanding of the risks involved, investors can make informed decisions that minimize their exposure to risk.

Be Patient And Don't Expect

To Get Rich Quick

Avoid expecting quick riches from the stock market. Recognize that the stock market is a long-term game, where success often stems from holding onto good companies for an extended period of time. One of the biggest misconceptions about the stock market is that it is a get-rich-quick scheme.

As legendary investor Benjamin Graham once pointed out, "In the short run, the market is a voting machine but in the long run, it is a weighing machine." By focusing on finding good companies with strong fundamentals and holding them for the long term, investors can increase their chances of success and achieving their financial goals.

Keep On Learning And Questioning

Also, continuous learning and questioning are essential. As legendary investor Charlie Munger wisely observed, "I constantly see people rise in life who are not the smartest, sometimes not even the most diligent, but they are learning machines. They go to bed every night a little wiser than they were when they got up and boy does that help, particularly when you have a long run ahead of you."

By staying curious and constantly learning, investors can improve their skills and knowledge, and increase their chances of success in the long run.

While luck may play a role in investment outcomes, relying on skills and knowledge is a far better source of success in the long run.

Luck can sustain only for a period. In the end, the reliance on skill and knowledge is going to pay as Buffett described, "Only when the tide goes out do you discover who's been swimming nake**D.**"

IMPORTANT JARGON

NBS RATES RATIONALISED

The government has revised downwards the nutrient-based subsidy (NBS) for the fertilizer sector. The new rates will be applicable for the upcoming kharif season (April-September). The decline in subsidy rates is in line with the falling raw material prices in recent months.

Q. What Are Fertilizers?

Chemical fertilizers play an important role in enhancing agricultural productivity. Fertilizers can contain a single nutrient, such as nitrogen (N) in the case of urea, or a combination of nutrients in varying proportions. For example, DAP contains 46% phosphorus (P) and 18% nitrogen (N). Other widely used fertilizers in India include single super phosphate (SSP), which contains 16% phosphorus (P) and 11% sulfur (S), and Muriate of Potash (MOP), which has 60% potassium (K). Depending on the soil type and the crop being sown, different grades of fertilizers are utilized. Urea, DAP, MOP, and SSP are extensively used by Indian farmers.

Q. What Is The NBS Scheme?

The cost of fertilizer production or import is typically higher than what farmers can afford. Under its subsidy regime, the government makes subsidies available for urea and approximately 25 grades of phosphorus and potassic (P&K) fertilizers to farmers at subsidized prices through fertilizer manufacturers or importers. The retail selling price for urea is fixed by the government at ₹5,360 per tonne and has remained stable for the last decade. For non-urea fertilizers, the government has implemented a Nutrient Based Subsidy (NBS) policy since 2010, which involves fixing subsidies for each component such as N, P, K, and S twice a year.

Q. Why Subsidize Fertilizers?

The government regulates the fertilizer sector and provides subsidies to compensate for the losses incurred by manufacturers or importers. The Indian fertilizer industry is highly susceptible to fluctuations in the international prices of essential raw materials like rock phosphate, phosphoric acid, ammonia, sulfur, and sulfuric acid. Therefore, to ensure the availability of fertilizers to the farming community, the government offers subsidies to the sector.

Q. What Are The New NBS Rates?

The new subsidy rates for the Kharif 2023 season have been fixed at ₹76 per kg for N, ₹41 per kg for P, ₹15 per kg for K, and ₹2.8 per kg for sulfur. In comparison, the NBS rates for the Kharif 2022 season were ₹91.96 per kg for N, ₹72.74 per kg for P, ₹25.31 per kg for K, and ₹6.94 per kg for sulfur. For the rabi season 2022-23, the NBS rates stood at ₹98 per kg for N, ₹66.93 per kg for P, ₹23.65 per kg for K, and ₹6.12 per kg for sulfur. The lower NBS rates reflect a decline in raw material prices over the past few months.

Q. What Are The Benefits Of Lower NBS Rates?

The kharif allocation will support fertilizer consumption. Lower NBS rates offer two benefits: firstly, it ensures the availability of important fertilizers to farmers at affordable rates, and secondly, it reduces the subsidy burden on the government, which is already exceeding the allocated budget. For the kharif season 2023-2024, the government has approved ₹1.08 lakh crore as fertilizer subsidy.

Out of this amount, ₹70,000 crore will be allocated for urea subsidy and ₹38,000 crore for DAP and other fertilizer subsidies. As a result, the total subsidy bill for the sector in fiscal 2024 will amount to approximately ₹2.15 lakh crore to ₹2.17 lakh crore, representing a 24% increase compared to the allocation made in the Union Budget in February.

HIKE IN KHARIF MSP

The government has raised the minimum support price (MSP) for 15 kharif crops, which are crops sown during the summer season, by an average of 7%. This increase is higher than the 5.8% hike implemented last year, making it the highest increase in five years and the second highest in the last decade. Paddy, cotton, and pulses are three major kharif crops, which will be affected by this price adjustment.

While the MSP is, on average, 7% higher than the previous season, the increases for these crops range from 5% to 10%. MSP is an essential tool for policymakers, as it helps ensure food security in the country and guarantees fair prices for agricultural products.

Q. What Is An MSP?

MSP is the assured price at which the government commits to purchasing produce directly from farmers. The government announces MSP for 25 primary crops, including summer crops, winter crops, and others, prior to the beginning of the sowing season.

State governments also have the freedom to declare additional prices for specific crops in addition to the MSP set by the central government. MSP is adjusted in accordance with the various input costs incurred by the farmers.

Q. What Purpose Does MSP Serve?

Since the MSP is announced before the start of the sowing season, it enables farmers to make informed decisions regarding the financial viability of cultivating a specific crop or diversifying into other profitable crops. This way, MSP serves as a safeguard against price volatility, especially during periods of abundant production.

Additionally, MSP acts as a tool for policymakers to encourage farmers to grow certain crops, strategically aiming to ensure food security within the country.

Q. How Does MSP Work At The Ground Level?

In a way, MSP establishes a minimum price for agricultural produce in the market. However, after the harvest, farmers have the freedom to sell their produce to government agencies such as the Food Corporation of India, the National Agricultural Cooperative Marketing Federation of India Limited (NAFED), or in the open market, depending on what is advantageous for them.

Q. Why Is The MSP Significant This Time?

MSP is sometimes used as a populist measure by political parties, especially ahead of the elections. India will be holding general elections around May next year. However, some research suggests that as compared to previous pre-election years, the kharif MSP hike this time has been less aggressive.

Q. What Is The Impact On Inflation?

Higher support prices benefit the rural economy and improve the purchasing power of the farm sector. However, higher MSP has been flagged as a major risk for inflation by some economists. But, the current MSP hike is unlikely to be inflationary in nature. Progress of monsoon and the effect of El Nino would be key to analyzing the trajectory of food inflation in the near terM.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