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Dear All,

This is Twenty-seventh edition of E-Newsletter "Fin Matters" In this Newsletter we are covering various topics relating to Finance. Thanks all for your valuable feedbacks and suggestions from time to time. For any Investor it is a tricky question that whether we should invest through primary market i.e IPO or through secondary market.

WHEATHER TO INVEST IN IPO OR INVEST IN SECONDARY MARKET

This question has haunted us for many years; whether it is better to invest through IPOs or through the secondary markets. Before the advent of demat, there was a unique benefit of investing in IPOs. Most secondary markets purchases had to be done in minimum basic lot sizes. Hence equity purchases were outside the ambit of most small and retail investors. The only way out was through the IPO route wherein one would be able to participate in equities even with a small investment. But, all that changed with the advent of dematerialization. The demat system got rid of the concept of lots and it was possible to even buy or sell 1 share of any listed company. Hence investment size was no longer a major constraint to investing in secondary markets.

In the last two years, the IPO euphoria is back in India after a long gap of over 6 years. During the fiscal year 2016-17, nearly $2 billion was raised through IPOs while the fiscal year 2017-18 is likely to see more than $6 billion being raised. But with IPOs getting substantially oversubscribed, the question is whether it still makes sense to look at IPOs. The answer is that it does. Here is why!

IPOs provide access to quality unlisted stocks..
Over the last couple of years we have seen a number of quality unlisted names enter the market through the IPO route. Companies like D-Mart, Shankara Building Products, Pru ICICI Life, ICICI Lombard and SBI Life have hit the IPO market. This has widened the choice in front of the small investor. The IPO price is fixed by the issuers and the merchant bankers at a level that is likely to elicit the maximum demand. Therefore there is the tendency to leave something on the table for the small investors and that works in favour of small investors. Of course, one can argue that these stocks can also be purchased later in the secondary markets post-listing, but the premiums that stocks have commanded in the recent past, you may end up paying a steep price.

IPOs give access to quality paper from PSUs owned by the government..
In the last 15 years, the divestment of quality PSU companies has given a huge choice of quality paper to invest in. Remember, one of the biggest outperformers of the last 15 years, Maruti Suzuki, was sold to the public by the government through the IPO route. Government owned companies offer the safety of government ownership, comfort of healthy dividend yields and a favourable operating environment. These stocks tend to get overpriced by the time they get listed in the secondary markets. This is one more opportunity for retail investors to get the best through IPOs.

The new IPO norms offer preferential treatment for small investors..
Over the last few years, SEBI has taken pains to ensure that the small and retail investors get a good deal in the IPO market. In this direction, there are quite a few key reforms that have been implemented. For example, retail investors are eligible to get a discount over the issue price that is applicable to HNIs and institutions. Secondly, even within the retail quota, these small investors are eligible to get higher allotments under

the new allotment norms with focus on broadening the retail ownerships. These are benefits that are not available in the secondary markets.

IPO norms have been made more stringent by SEBI..
The focus of SEBI has been on protecting the interests of the retail investors and has therefore impelled companies and investors to follow higher standards of disclosure and transparency. This has resulted in making the IPO markets a lot more professional and safe for the retail investors. Unlike the secondary markets where there is a glut of information but limited insights, the IPOs manage to consolidate all the intelligence pertaining to the company into the prospectus.

IPOs give you the benefit of information symmetry..
This is a very unique advantage that IPOs enjoy over the secondary markets. In the secondary markets, it is the institutional investors, analysts and the insiders who have an edge over the small and retail investors in terms of information availability. Since IPOs are not tracked by analysts the only source of information is the prospectus of the company. Therefore a retail investor, in terms of information availability, is on the same plane as other investors. This is a very unique advantage that IPOs offer to retail investors.

IPOs also work out economical under the ASBA rule..
Retail investments in IPOs are routed through the ASBA route. Applications Supported by Blocked Amounts (ASBA) ensure that the amount is debited to your account only after the shares are allotted. Thus, unlike in the past, the small investor does not lose interest on the amount not allotted and therefore works out more economical for him.

A word of caution is warranted here. There is no empirical evidence to say that IPOs have done better than secondary markets in terms of performance. However, tighter regulation has made IPOs a safer and more profitable market to participate in.

Fin Corners

BONDS Vs FIXDED DEPOSITS

Bonds and Fixed Deposits (FD's) are widely considered the two most popular alternatives for risk-averse investors across the world. While both bonds and FD's are 'fixed income' instruments in the sense that they offer interest income to investors, they actually differ markedly across various parameters. It's worthwhile to educate yourself on the nuances of bond and fixed deposit investing in order to make an informed investment decision.

What Are Fixed Deposits?
Fixed deposits are financial instruments issued by banks, NBFC's (Non-Banking Financial Companies), as well as regular corporate entities. Fixed Deposits, as their name suggests, as 'fixed' for a particular duration, during which time the investor enjoys periodic interest payouts. Payouts can be monthly, quarterly, annually or cumulative in nature. Fixed Deposits differ from bonds in five major aspects. These are described below.

Safety
You'll find that most Bonds are secured in nature, as they are backed by physical assets. However, if the credit rating of the issuing entity deteriorates, the bond holder may not receive timely interest and principal payouts - therefore, it is advisable to check for credit ratings and stick to AAA, AA or A rated bonds only. Upon the unlikely event that a company goes bankrupt and its assets get liquidated, it is actually the bond holders who stand first in the pecking order.
FD's, on the other hand, are unsecured and not backed by assets. You may be surprised to discover that even Bank FD's are insured only up to Rs. 100,000 (capital and interest) per depositor. There is however, a very slim chance that Bank FD

investors will lose money - a case in point is Global Trust Bank which, embroiled in the stock market scam of 2001, went under in 2004. While shareholders booked massive losses, deposit investors didn't lose a cent.

Liquidity

Bonds are tradeable on exchanges and can therefore said to be more liquid. However, remember that interest rate movements can impact bond prices (especially longer term bonds), and so the liquidity comes at the cost of price volatility. Fixed Deposits, on the other hand, can be withdrawn prematurely - although they aren't traded on the exchange. The premature withdrawals come at the cost of reduced interest.

Returns

Both Bonds and FD's offer a fixed payout at predefined periodicities (unless the bond in question is a zero coupon one which is issued at a discount to its face value and matures at its face value). However, Bonds offer the additional scope of earning Capital Gains, as Bond prices fluctuate either based on changes in market interest rates, changes in the creditworthiness of the issuer, or both. FD's are not tradeable on an exchange, and hence don't offer the scope of earning capital gains. It's worth noting, however, that bond trading isn't everyone's cup of tea, and an uninstructed retail investor will be taking a big risk by aiming to trade in bonds without an adequate degree of familiarity with the brass tacks of the debt market.

Credit Rating

It is a mandate for Bond Issuers to get their instrument rated by at least one rating agency such us CARE, ICRA or CRISIL. Issuers are strict about disclosure requirements and will typically not offer a rating without adequate information about the company that the general public are not privy to. For FD's those issued by NBFC's must mandatorily be rated; there's no such mandate levied on Bank FD's though. Ratings are useful as they allow greenhorn bond investors to easily evaluate the returns on offer in light of the risk they are taking on in the process.

Taxation

Interest from Bonds as well as FD's are subject to income tax as per the tax slab of the individual (taxed "at the margin"). However, there are tax free bonds issued by the government, on whose interest no income tax is payable. Examples of some upcoming tax free bonds include PFC, REC, NTPC, IREDA, HUDCO, IRFC and NHAI. The NHAI issue is expected to be sizable (at ~ Rs. 24,000 Crores). In case you choose to sell your bonds on an exchange prior to maturity, capital gains will apply.

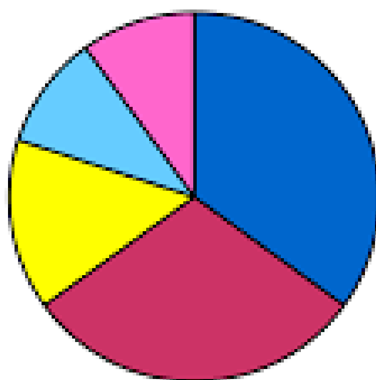
HOW TO IMPROVE CREDIT SCORE CARD

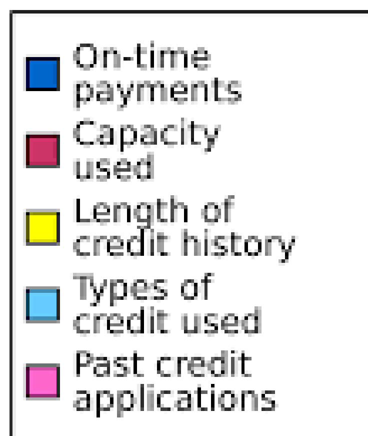
You can improve your credit score as it will help you to get the credit at the times you need. Your credit approval depends on your creditworthiness and also the size of the loan you have applied for. Undoubtedly with some efforts, you can improve your credit score and can become more creditworthy again.

The range of the credit score might be anything around from 300 to 900. The higher the score the more the opportunities in getting credit and on the contrary the lesser the score the lesser the opportunities in getting credit.

- **Paying bills on time –** Undoubtedly, timely payment of your debts not only helps in avoiding paying any extra charges but also helps to improve your credit score.
- **Don't exceed your credit limit** – Always ensure not to exceed your balance more than 30 % of your credit card limit.
- **Opening of credit accounts** – Open new credit accounts only if it is needed and opening new credit accounts doesn't help you in improving your credit score
- **Using Secured Credit Card** – If you are having any bad/low credit scores or if you do not possess any credit card history it is better to opt for a secured credit card.
- **Never close your unused credit cards** – Don't close your old credit cards and to increase your available credit never open a number of new credit cards when you don't need.
- **Never settle your credit cards and loans –** When you opt for a settlement of your loans and credit cards due to some reasons the term settlement will reflect in your credit score and this will have a negative effect on your score
- **Check your credit report and fix mistakes if any** – It is always better to check your credit report and check if any mistakes or if you've been the victim of fraud or identification theft.

CREDIT SCORE FACTORS





TrendingNews

Recent Financial News

- 2017: A record breaking year for the domestic MF Industry
- Five regulatory changes that shook businesses in 2017
- Cibil to now help borrowers get the best loan
- You can merge 10 old EPF accounts at one go with this new service
- The rebalancing Act for 2018
- Evaluate zero-cost medical loan before borrowing
- Startup Lessons: Top 5 reasons why ventures die in early stages in India
- 4 Reasons Why You Need To Budget Monthly

StressBuster

I will tell you how to become rich. Close the doors. Be fearful when others are greedy. Be greedy when others are fearful.

No one's ever achieved financial fitness with a January resolution that's abandoned by February.

Succession Planning

Succession planning is not an issue that many organizations address in any systematic way. Because many nonprofits are small (with fewer than 10 employees) and because they may be facing other organizational challenges, thinking about who the next executive director might be or what would happen if the director of finance suddenly left is not high on their priority list.

There are many reasons why organizations need to be thinking about succession planning. The most important reason, of course, is that we rely on staff to carry out our missions, provide services and meet our organization's goals. We need to think about what would happen to those services or our ability to fulfill our mission if a key staff member left.

Another reason to focus on succession planning is the changing realities of workplaces. The impending retirement of the baby boomers is expected to have a major impact on workforce capacity. Teresa Howe in "Succession Planning and Management" identified other emerging realities about the workforce in Canada:

- Vacancies in senior or key positions are occurring in numerous organizations simultaneously and demographics indicate there are statistically fewer people available to fill them
- Baby boomer retirements are on the rise just at the time when the economy is growing and increasing the demand for senior management expertise
- There is no emerging group of potential employees on the horizon as in past generations (i.e. baby boomers, women entering the workforce, large waves of immigration)
- Many organizations eliminated middle manager positions during restructuring in the 1980s and 90s and no longer have this group as a source to fill senior level vacancies
- Younger managers interested in moving up do not have the skills and experience required because they have not been adequately mentored. This is because middle managers, who would normally perform this type of coaching role, were eliminated

With careful planning and preparation, organizations can manage the changes that result from a generational transfer of leadership as well as the ongoing changes that occur regularly when key employees leave an organization.

Although the type and extent of planning will be different, organizations both large and small need to have some sort of succession plan. Effective succession planning supports organizational stability and sustainability by ensuring there is an established process to meet staffing requirements. Boards and executive directors can demonstrate leadership by having the strategies and processes in place to ensure that these transitions occur smoothly, with little disruption to the organization.

FIN MATTERS Private Limited

(Financial & Management Consultants)

#655, 1st Floor, Sector 40-A, Chandigarh-160036
Cell: +91-9888775790, +91-7814030099 (O), Landline:-+91-172-4026475

www.finmatters.in

www.facebook.com/finmatterschandigarh

www.twitter.com/finmatterschd

finmatters655@mailchimp.com

CA Plus+(Facebook page for CA's, CWA, CS, MBA's and other Finance Professionals)