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Financial Ecosystem of India

Strengthening the economy for a better future

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Message

Mr. Ravi Agarwal, Chairman
ASSOCHAM Eastern Region

India has a growing leadership role, globally. If we look at the numbers, being spoken by IMF , India is likely to contribute 15% of global growth. Digitalization, has been taken advantage of by India, significantly. With G-20 presidency , India is gaining an advantage of being able to present world with agenda that impacts planet and its people.

Sound financial systems underpin economic growth and development, Globally, capital markets are becoming essential to financing infrastructure such as roads, power plants, schools, hospitals etc. They are increasingly relevant for the Sustainable Development Goals as reaching many of them will require long-term financing that traditional funding sources won't be able to cover. Attracting private sector finance and investment to help cover the huge financing gaps is necessary to help the world meet these global goals in India, Indian capital markets are driver of growth during Amrit Kaal as we look ahead to next 25 years.

Financial regulators in India have contributed to developing one of the world's most robust banking and financial systems and coming times would only see the efficient flow of credit, increase financial inclusion, and measures to support financial stability. There is need to further look at simplifying compliances. Indian Banking and Non Banking sector has been through some changes owing to covid and world situations, however the sectors are emerging out strongly. NBFCs are stronger and more resilient today, and better positioned in almost all operationally critical parameters.

New Financial Instruments, Investor Awareness are key to the growth story; we are optimistic of financial sector growth in India at 100 will truly be a economically strong nation influencing other markets.

Message

Mr. Ashis Nundy, Chairman
ASSOCHAM Finance Sub Council East

Assocham is organizing its Annual Financial Conclave in the East involving all the important National level stakeholders, intermediaries and participants on the 3rd of March 2023. This conclave aims to cater to the needs of the people of Eastern India to create sustainable wealth. Financial inclusion is the primary objective for India to achieve a five trillion Economy by 2025-26. A strong inclusive and vibrant financial ecosystem is a must to fund the growth of the country. A sustainable flow of knowledge through a chain of events, physically as well as virtually to support this objective, on behalf of Assocham East is our main motto.

A knowledge-driven Ecosystem can only support the cultivation of wealth in this part of the country.

As per the IMF projection, 50 % of the Global growth will come from India and China. Therefore India growing at 7 per annum is in interest of the entire world which will lead to substancial increase in FDI and FPI flow to India in the coming years for which a vibrant and strong Financial Ecosystem is a must.

The Budget for the financial year 2023-24 has laid the road map for India's growth over the Amrit Kal of next 25 years with major thrust on Infrastructure (with 33.4 % increase in outlay) Green Energy, Agriculture and so on. The funding of such projects needs long term Capital and long term Capital can come from a vibrant, transparent and well penetrated financial market.

The MSME sector(which contributes 29 % of India GDP and 50 % of Exports) and the Statrt Ups of our country needs to grow substancially to support India's growth. The major issue faced by them is lack of Capital.

The Eastern part of India particularly West Bengal has large number of MSME s and Start Ups and their timely funding and growth can ultimately support the entire process and ecosystem of building India over next 25 years to major global player.

Capital Formation and Savings through the Financial Market by bringing in more Retail Investors in this Financial Ecosystem can also support this journey of India to a developed economy.

Keeping all these factors in mind Assocham Eastern through this Annual Financial Conclave is creating a platform where all stakeholders from the National as well Regional level can come together to share their thoughts to create a strong Financial Ecosytem to support entire journey of Eastern India and thereby the entire Country.

Message

Mrs. Perminder Jeet Kaur, Senior Director
ASSOCHAM East & Northeast

India is a growing story and G20 presidency is an opportunity for India to strengthen its presence globally. The rapid digitalisation of the financial sector in recent years has helped in realising benefits in terms of improved financial inclusion and consumer convenience, and achieving cost efficiencies however there is potential to further strengthen the regulatory reforms to make the digital financial system more efficient, secure, stable and people-centric. India is moving ahead to record largest number of cashless transactions. in the world. The digital influence is significant.

The financial sector is the key pillar of any economy may be it developed or developing. India has strong financial sector and the growth of the capital market is visible from rising participation of all stakeholders. The reforms introduced has further helped scale up sectoral growth. Capital Markets of India are growing much stronger. From being driven by FPIs once upon a time , today we have strong domestic investments. India has some of the strongest investor protection mechanisms. Financial regulators in India have contributed to developing one of the world's most robust banking and financial systems

At ASSOCHAM we strongly believe Bharat@100 would be a global force to reckon with and in this regard creation of new financial instruments, building tech enables infrastructure, raising awareness among investors, financial inclusion are key building blocks to help strengthen the sector and connect positively with citizens.

Foreword by LSI Financial Services

India dreams of to be a $5 trillion economy by 2025. A lot of support is needed from the financial system in order to fund this growth. The interlinkage between the economic development and the financial system cannot be ignored as higher growth figures can only be achieved when the wheel of savings and investments propel smoothly. Businesses and industries are financed by the financial system which leads to the growth of employment and in turn increase economic activity and domestic trade. Financial intermediaries help improve investment efficiency, leading to higher economic growth.

The financial ecosystem will have a big role to play in this future growth story of India. All the stake holders of this system namely, the Financial Institutions, Financial Markets, Financial Instruments & Securities as well as the Financial Service Providers need to work in consensus to take India to this next level of growth platform. A financial system can be said to play a significant role in the economic growth of a country by mobilizing the surplus funds and utilizing them effectively for productive purposes.

A sound credit system must include a well-run banking system as well as a well-developed bond market. Non-banking finance companies (NBFCs) cannot perform their functions effectively without a strong banking system and a liquid bond market. Large pools of domestic capital such as mutual funds and insurance, cannot be invested unless there are well-functioning securities markets. Securities markets cannot function effectively unless they are regulated well. In other words, savings in the economy get intermediated through multiple different channels – both markets and institutions – that are, by construction, highly interdependent and interconnected.

This report by ASSOCHAM and LSI Financial Services Pvt. Ltd. talk about the role of each of these stakeholders in this future growth story of India. The report also has recommendations for the better functioning of the financial ecosystem and the areas are identified where more focus is required. Allowing more private sector participation in the financial system, paying more attention to credit growth, making it easier for funds to flow into capital markets and properly regulating important NBFCs are all ways for the financial sector to evolve in a direction that can position India for fast, broad-based growth. A modernized and stable financial system is essential to delivering it.

TABLE OF CONTENTS

CHAPTER NUMBER	CHAPTER NAME	PAGE NUMBER
1	India as an Emerging Economy: Potentials & Vulnerabilities	1
2	The Indian Financial System	9
3	The Indian Securities Market - Future Ahead	13
4	International Investing: Managing a Cross Border	18
5	Alternative Investment Opportunities	24
6	Family Office Management - Beyond Portfolio Management	32
7	Recommendations for the Indian Financial System	39

CHAPTER 1:

India as an Emerging Economy: Potentials & Vulnerabilities

Introduction

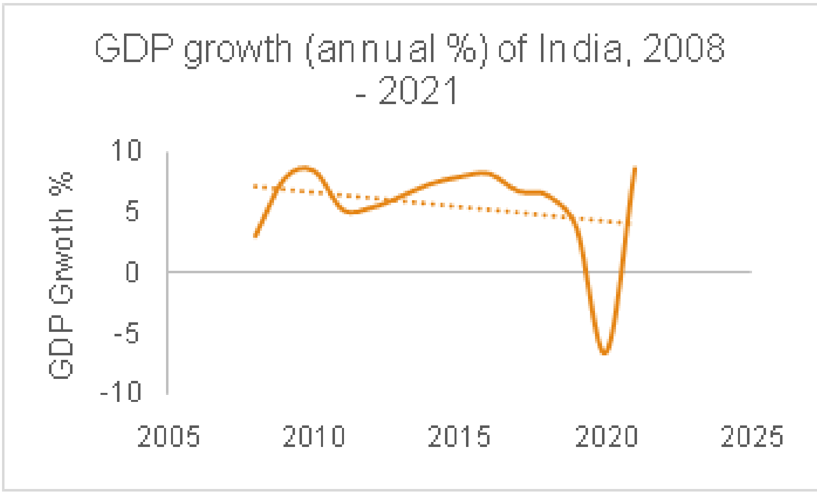
Since independence, for the last 75 years, the Indian economy has experienced several success and failures in economic and social development. India being integrated with the global economy is subjected to development related to global issues alongside the domestic ones. From 2020 Indian economy is hit by three global economic shocks, as follows; Covid 19 pandemic, Russian-Ukraine war, Synchronized interest rate hikes by Central banks.

- The economic impact of the pandemic is significant in terms of contraction of output of fiscal year 2021. From the fiscal year 2022 Indian economy has turned towards recovery phase through means of pandemic combative measures-localized lockdowns and wide vaccination coverage and additional advantage was mild symptoms.
- Conflict between Russia and Ukraine increased the geopolitical tension and disrupted the fragile supply chain after the pandemic and has necessitated the inflation to stay above the tolerance level of RBI for a length of 10 months before returning to slightly normal range of 6% in November 2022.
- Central bank across economies has started to increase the interest rate to curb inflation caused by pandemic and Russia-Ukraine conflict. This particular tightening monetary policy stance drove out the capital to the US market causing the dollar to appreciate against most of the currencies. This led to widening of current account deficit (CAD) of the net importing countries.

To achieve $ 5 trillion to $ 10 trillion economy, India has to target 7% to 10% growth per annum. The effective implementation of macroeconomic policies, sectoral policies, increase in investment, higher investment on infrastructure, increase in exports and better performance of financial institutions are required to improve credit to different sectors of the economy to engineer higher growth. Inequality in opportunities and outcomes both have to be reduce to accomplish the sustainable economic growth path. Similarly effective management of issues on climate change, land, water, and energy are also becoming important both at the national level and global level because of the nature of common property resource.

Macroeconomic growth and challenges

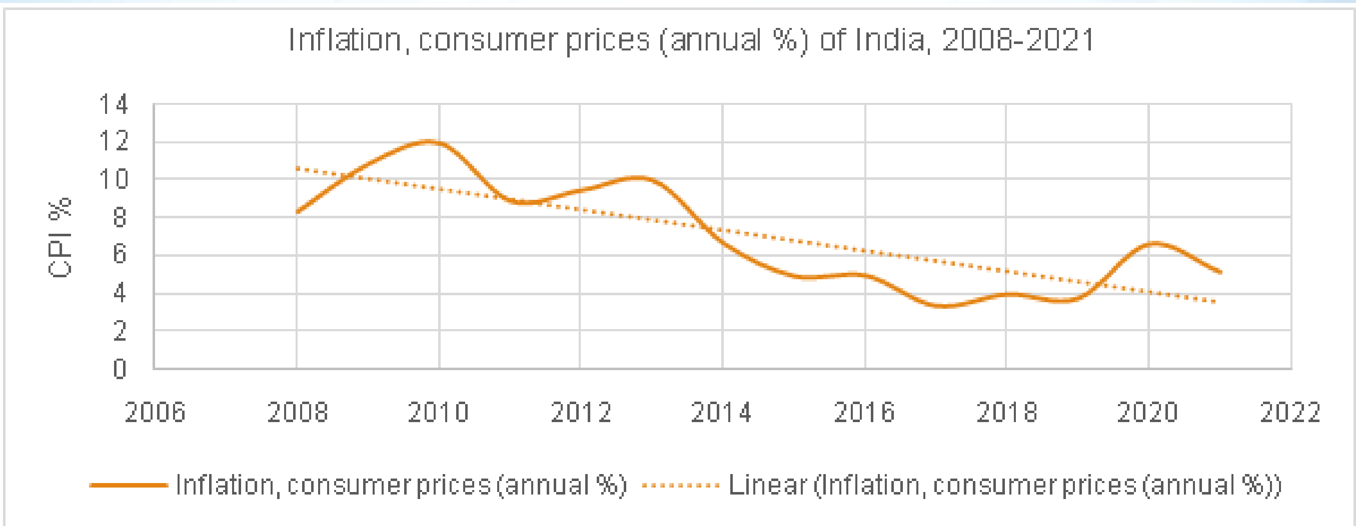
India since independence has reasonably done well from the perspective of economic growth, and macroeconomic stability has been of the supreme interest of all the stake holders in the policy making arena, and that has been achieved quiet well. India had an average growth rate of 3.5% till the end of 1970s and 5% growth during 1980s and since 1991 when economic reform started, India started experiencing growth rate of 6% in the decade of 1990s and 7%-8% of economic growth rate in the decade of 2000 and beyond. The source of growth in India has been primarily coming from demand side through private consumption, government consumption and investment and net export.



The best GDP growth was recorded from 2003-04 to 2007-08 at 8% to 9% per annum before the financial crisis, and during this time global growth experience was also quite impressive. From 2008-11 growth rate was maintained but with high fiscal deficit of 8% to 9% and during this time inflation was also on the higher range. Indian economy battling through the financial crisis amidst euro crisis and dampening export growth increased its growth rate from 5.2% in 2011-12 to 8% in 2015-16. The growth rate there onwards started declining to 6.8%, 6.5% and 4 % in 2017-18, 2018-19, 2019-20 respectively. But notably 2016-17 during the time of demonetization growth rate was 8.3%. In the recent past in pre-covid times 2019-20 economic growth declined to 4%. The declining of growth in the last decade can have the supply side reasons as decline in growth of manufacturing and construction, and services, whereas agriculture has maintained a certain amount of growth in the GDP share. Contraction of output was experienced in India in FY21 due to the impact of pandemic and deceleration of economic growth was observed. But pandemic combative measures implemented by India, supported in recovery of economic growth in FY22 with 7%, and two hands of stabilization function: fiscal and monetary policies are working towards making the growth path sustainable in times of high volatile economic scenario globally. Primarily because of buoyant domestic private consumption and steady government expenditure on social overhead capital, domestic capacity utilization got rebounded to an impressive scale relative to many other emerging economies as well as some of the advanced economies. According to the Economic survey 2022-23 the pent-up demand got support from increase in the share of disposable income to rebound the consumption. The trend of GDP growth in short run seems to be in the downward direction, whereas the GDP growth trend scenario looks much stable over a long-term horizon from 1991-2022 though India has witnessed many structural breaks in the form of shocks. This conforms the notion of macroeconomic stability of Indian economy in the long run. To achieve the target of $ 5 trillion economy by 2024-25 the estimated growth rate has to be 7% to 8% per annum and progress should be coming both from demand side and supply side.

Inflation scenario of India

Two global shocks, pandemic and Russia-Ukraine conflict has their significant contribution in entailing the current inflation rate of the Indian economy. Both the shocks have given their first knock to the supply side eventually impacting the demand side as a consequence and has caused the inflation to be beyond the tolerance level. Successively both the shocks have severely disrupted the supply chain and its restoration. The price of the essential commodities crude oil, natural gas, fertilizer and wheat has soar due to the geo political conflict. The rising commodity prices has led to inflationary pressure on the Indian economy along with other emerging economies, which otherwise were in moderate inflation zone because of the calibrated fiscal stance followed by the respective governments. Soon after the two global shocks accelerating the inflationary pressure, central banks across economies took the policy stance of tightening monetary policy by hiking the rates to tame the inflation. But this spree of synchronized tightening monetary policy led by the US central bank impacted the economies across space by weakening the growth and also by means of capital flight. The synchronized rate hikes by the central banks have been historically remarkable this time being very rapid. The positive impact of the tightening monetary policy always comes in effect after a lag due to the policy expectation adjustments and also the structural adjustments within the economy, hence the inflation was on the upper side of the tolerance level during the initial days of the tightening. Tightening monetary policy drove the capital out to the safe heaven US market, resulting in the rise in sovereign bond price and appreciating dollar against most of the currencies in the world. Due to the appreciation of the of dollar net importing countries are adversely affected and India is of no exception. Indian supply chain is facing a huge cost during the import of the intermediate products, and also while procuring the final good from abroad. This high import cost is also causing the inflation to be a supply side problem. There is a consequent increase in the borrowing cost which is stressing the high level of public and private debt and is baleful for the financial system.

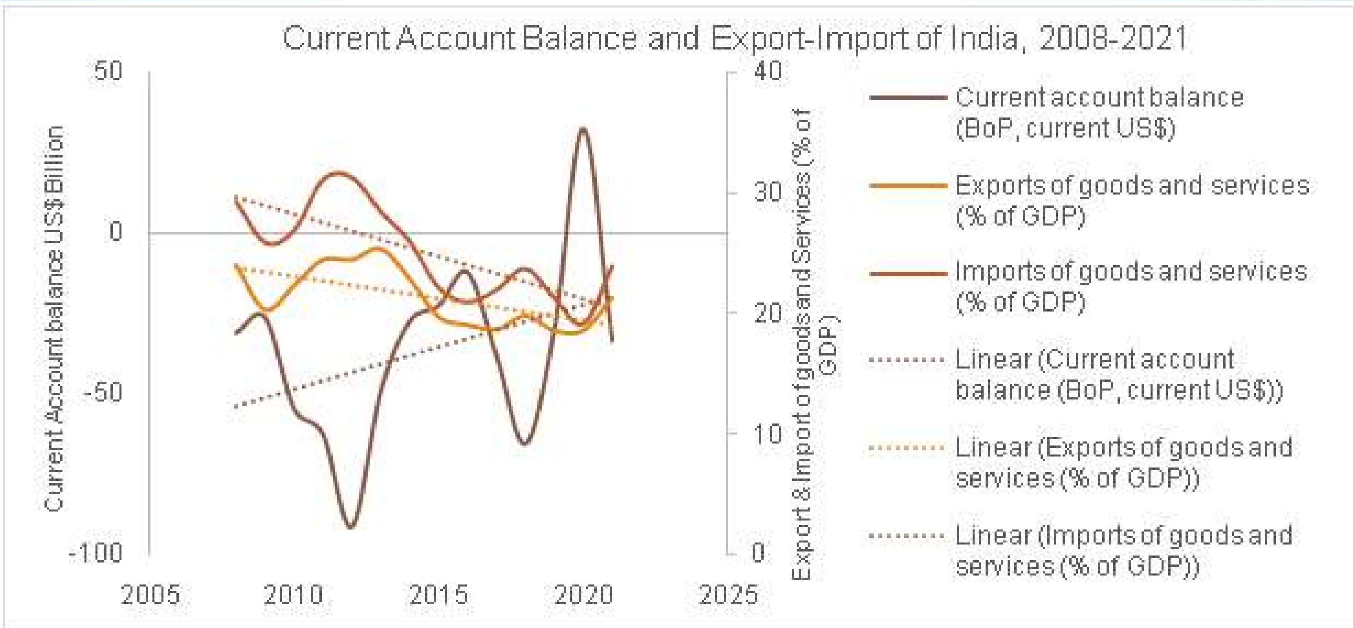


RBI's hike in the bank rate which is very concurrent has been able to bring down the inflation to 6%, near to the tolerance level and an overall downward inflationary trend is being observed for India.

Source: World Bank

International trade and FDI scenario on India

International trade is a major engine of growth. Global economy since 2020 has been pounded badly by two exogenous shocks- pandemic and Russia-Ukraine conflict followed by an induced shock of tightening monetary policy to combat the macroeconomic fall outs. But afore time the world trade since 2017 took the stance of protectionism. The tariff war between US and China made the world trade prospect to be very bleak. Repercussions of this economic phenomena were on all other emerging economies including India. These shocks have created lot of uncertainties in the global economy and international financial market seems to be very volatile and is having adverse effect on the world trade. The imminent global growth, slow world trade, tightening monetary policy by several central banks, appreciating dollar against many currencies, capital flight to US, is making the international trade scenario retrenching. Overall, the global trade outlook seems to be grimmer and the challenge to the Indian economy under this scenario is to attain the growth rate of 7-8% by ameliorating its balance of trade performance.



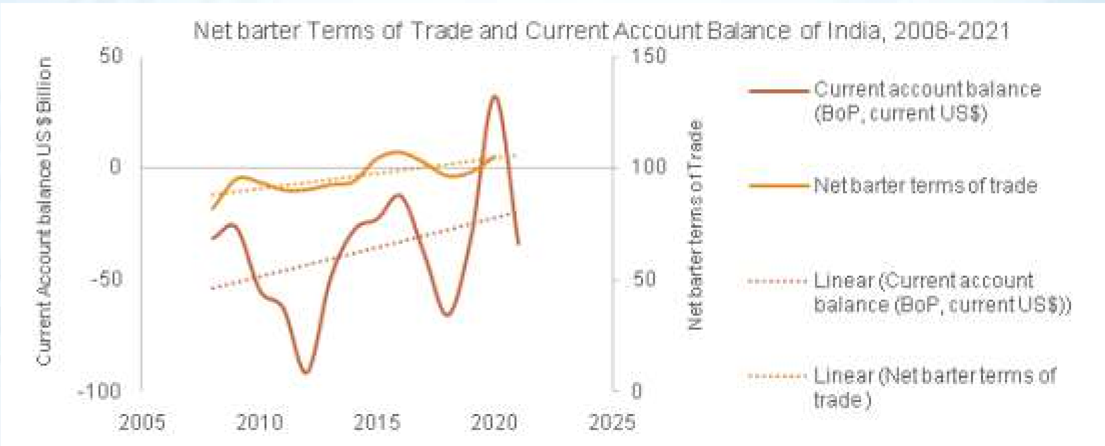
Source: World Bank

The import bill of India has always been quite inflated majorly because of two net importing commodities, gold and crude, whose price are quite elevated. Indian government is been putting effort extensively to reduce the import cost of gold by designing new Gold Policy for India since 2018. Compatible incentives are being designed to import gold in unrefined form rather than being in refined form. The economic policy is aiming to add the value addition in the gold market by refining the gold domestically, consequently expanding the gold refining industry of India and reaping more gains from exporting the final product of the gems and jewelry sector. This policy mechanism has a potential to benefit in the form of a payback. Other top import items of India are electronic goods, coal, coke & briquettes, machinery, electrical and non-electrical.

A stagnation in export has arrived due to slow global demand caused by consecutive shocks. There is a significant relation between global economic growth and export demand from India, which is lying flat for few years. Forecast from IMF and world bank about the global growth seems to be dull and hence India's export sector will be on the downside for some time, unless the new steady global growth is resumed. This has been the weakest scenario since 2001 and global financial crisis. Global trade growth seems to become bleak due to the fact that 'source country's' export earning is function of the 'destination's country's' export earnings and through negative multiplier effect due to economic slowdown the international trade is dampening. In this weak global economic backdrop Indian government through the FTA arrangements with many partner countries is trying to promote the export and gain market share by diversifying its export basket and increasing the elasticity of the export product. The gains from trade are going to be obtained through this mechanism in very near future. During the time of high growth of India in 2000-2011 the export grew at a very high rate of 21% and 24% for goods and services respectively. The export growth of goods was almost stagnated during 2012-2019 and the export growth of services declined to 5.9%.

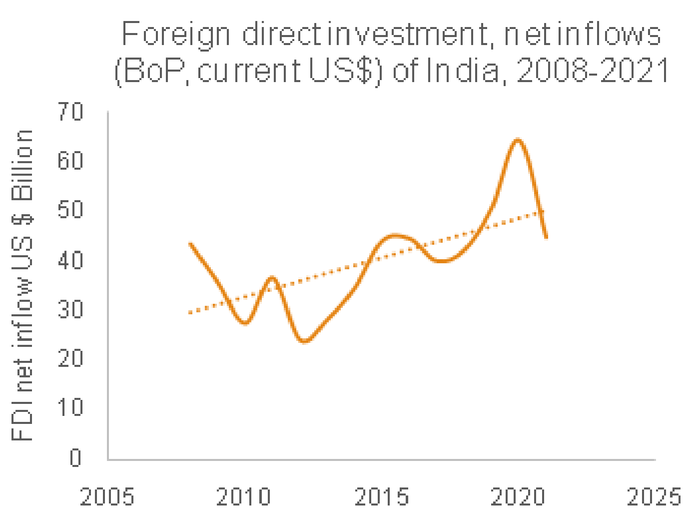
In pre pandemic era Export of goods and services as a percentage of GDP has increased consistently from 9% in 1991 to 25% in 2012, and decreased thereafter to 19% in 2019. Import of goods and services as a percentage of GDP also has declined from 31% to 21% from 2012 to 2019. During this period the world trade to world GDP remain quite consistent but trade openness of India declined. The trade volume rebound to 7.1% in 2021, but it will take some time to return to the pre-pandemic level.

India's export sector has been predominantly capital intensive whereas Indian economy has been labor abundant. This phenomenon has been anomalous of nature and due to this factor price gain couldn't be realized optimally. The focus of the trade policy since reform has always been on product market liberalization, where as less focus was given on factor market. The products in export basket of India have always been capital and skill intensive such as Pharma, auto and software, contrastingly less focus was given to the labor intensive and relatively skill intensive products like textile and garments. Participation of Indian economy in the global value chain (GVC) has been very limited and following it the return in factor market because of the factor market market rigidities across product lines in the export sector.



Source: World Bank

Current account deficit has remained high for India due to sharp rise in oil price internationally and high import bill due to gold import mostly for consumption purpose. Current account balance shows an improving trend in the long term. Since the net export has always been negative during the period of 2012 to 2019 first half the CAD deficit increased. During later half of 2019 to and beginning of 2020 the current account balance after a long time marked to be positive. But a headwind of this improvement started since the pandemic and consequent geopolitical crisis caused the supply chain disruption, inflationary pressure and world-wide growth slowdown, resulting in the slow growth of export.



Source: World Bank

Both the components of BOP, current account and capital account have been affected in recent times due to multiple adverse events. The CAD has increased due to the discernible high import bill because of the sharp rise in oil prices and other essential commodities, alongside the appreciating dollar. The capital account has been impacted negatively due to the outflow of the foreign portfolio investments to the safe heaven US market due to the rise in the bank rate by the central banks world wide led by the Federal Reserve. According to Economic Survey 2022-23 forex reserve of India at the end of December 2022 562.72 US $ billion was sufficient enough to pay the import bill of 9.3 months. The external debt to GDP ratio stands at 19.2% in September 2022, which is considered to be at the comfort level.

Credit growth in India:

Optimum capital allocation in the economy both in the consumer and production side is a major factor to stimulate productivity and reduce income gap in the economy. Evidences of capital misallocation is found to be prevalent in Indian economy to large extent. The drivers of capital misallocation ranges from property rights, contract enforcement, licensing rules and regulations to financing infrastructure. Another underpinning driver of capital misallocation is by means of credit market. Imperfection in the credit market often deters the economy from achieving the efficient outcome. The majority of the credit allocation in India happens by means of bank, and especially through the public sector banks (PSB). Bulk of the corporate credit from the PSB's are available to the large firms. The deviation from the desired productivity happens when supply of credit is going to the unproductive firmand a larger share of credit in India is available to unproductive firms. Many productive firms have to operate below their capacity due credit constraints faced by them. Agricultural credit has increased in India through the channel of Regional Rural Banks (RRB) and many other NBFCs, but the productivity in agriculture is not in align with the growth in the credit in this sector because of the untimely available of credit.

The availability of the corporate credit is restrained in Indian economy due to NPA happening because of the unproductive firms. Credit growth is relatively higher in the retail market. After the pandemic the banking sector has responded firmly to the demand of credit and has generated demand for goods and services in the economy. But the supply side is constrained by the availability of the credit and not creating supply in equal measure to meet the demand. The year-on-year credit growth has increased since January – March, 2022 and has reached double digit. Credit to MSME sector has increased remarkably since January-November, 2022 and has been over 30.5% on an average (Economic Survey, 2022-23). The Insolvency and Bankruptcy Board of India (IBBI) with new recovery laws has given a turnaround in the finances of the public sector banks, reduced the NPA and resulted in profit booking. Scope of credit growth is going to increase more when the interest cost for the domestic credit will decrease and will generate more demand of credit both from retail and corporate market. This will happen once the spree of increasing the bank rate by RBI is over after bringing down the inflation to the tolerance level.

Growth linkage with financial sector

Financial sector plays a significant role in contribution of the economic growth and equity. The economic growth is impacted both with cyclical and long-term effects by the interaction of the financial sector with the real economy. The cyclical effects are obtained from the linkage between credit, money, house prices and economic activities. Long term effects on growth will be realized form the nexus between financial health of the bank and GDP growth. The degree of capitalization of the bank has inverse relation to the cost of debt financing, and consequently positively related to the higher annual credit growth and can impact monetary policy transmission. The extant studies shows that weekly capitalized banks have low responses to higher capital requirements and contribute to weaker productivity growth. There are evidences of higher credit both in household and firm segment and lower non-performing loans (NPL) have positive impact on GDP growth. Whereas a negative shock in the credit market can shift the growth distribution to the left tail and increase the downside risk.

Estimates shows that credit to GDP ratio peaked at 106% in 2012 and declined to 90% in 2021 and bank credit to GDP ratio stands at 55% currently. The decline in corporate credit growth after 2012 took place due to deleveraging of the corporate sector and the decline sharper compare to the credit growth in household sector. The NPL ratio peaked at 11% in 2017 but has come down since to 8% due to some corrective measures-(Insolvency and Bankruptcy Code, 2016) and recapitalization of PSBs, taken by the government to manage the bad debt stress faced by the PSB's and led to rise in risk aversion in the banking system. Indian economy is mostly bank dominated and thus banks have a pivotal role in meeting all the economic challenges. The credit has to keep flowing to all categories of economic agents- households and firms, to increase the economic activities.

Policies related to banking has to formulated in lieu of recapitalization of banks, bring down NPAs, and insolvency and bankruptcy code. According to RBI the near future banking landscapes in India would be like (a) First set will be dominated by large Indian banks, (b) Secondly there will be several midsize banks, (c) Thirdly, small private sector banks, small finance banks, regional rural banks and cooperative banks, (d) Fourthly, there will be digital players who may act as service providers directly to the consumers.

CHAPTER 2:
The Indian Financial System

Introduction

The financial system enables lenders and borrowers to exchange funds. India has a financial system that is controlled by independent regulators in the sectors of insurance, banking, capital markets and various services sectors.

Thus, a financial system can be said to play a significant role in the economic growth of a country by mobilizing the surplus funds and utilizing them effectively for productive purposes.

Features of the Indian Financial System

- It plays a vital role in economic development of a country.
- It encourages both savings and investment.
- It links savers and investors.
- It helps in capital formation.
- It helps in allocation of risk.
- It facilitates expansion of financial markets.

Components of Indian Financial System

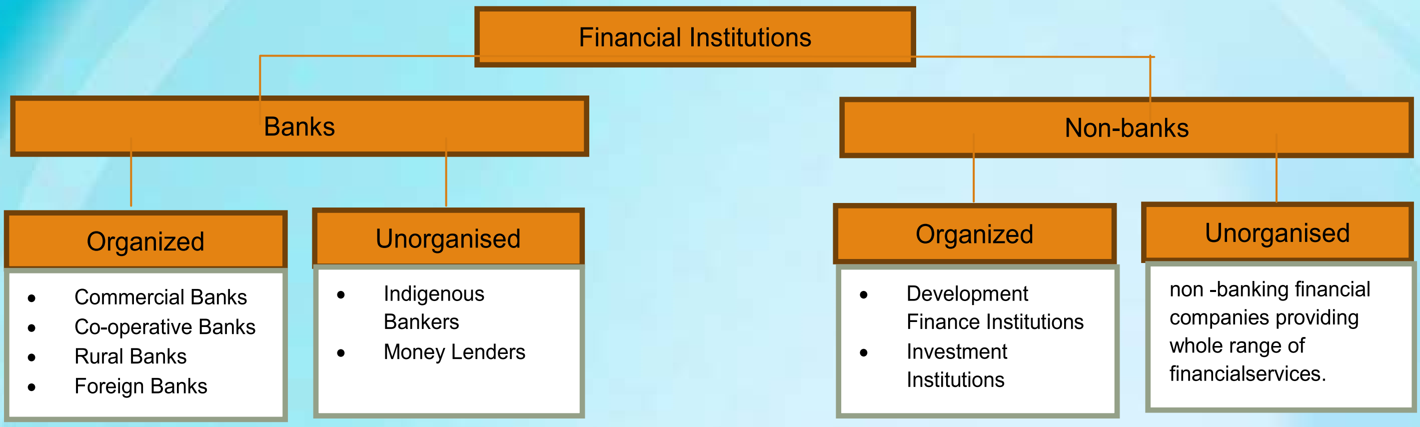
The following are the four major components that comprise the Indian Financial System:

1. Financial Institutions
2. Financial Markets
3. Financial Instruments/ Assets/ Securities
4. Financial Services

Financial institutions are the intermediaries who facilitate smooth functioning of the financial system by making investors and borrowers meet. They mobilize savings of the surplus units and allocate them in productive activities promising a better rate of return. Financial institutions also provide services to entities (individual, business, government) seeking advice on various issue ranging from restructuring to diversification plans. They provide whole range of services to the entities who want to raise funds from the markets or elsewhere.

Financial institutions are also termed as financial intermediaries because they accept deposits from a set of customers (savers lend these funds to another set of customers (borrowers).

Financial Institutions Classification of Financial Institutions



Financial markets refer to the institutional arrangements for dealing in financial assets and credit instruments of different types such as currency, cheques, bank deposits, bills, bonds etc. Functions of financial markets are:

(i) To facilitate creation and allocation of credit and liquidity

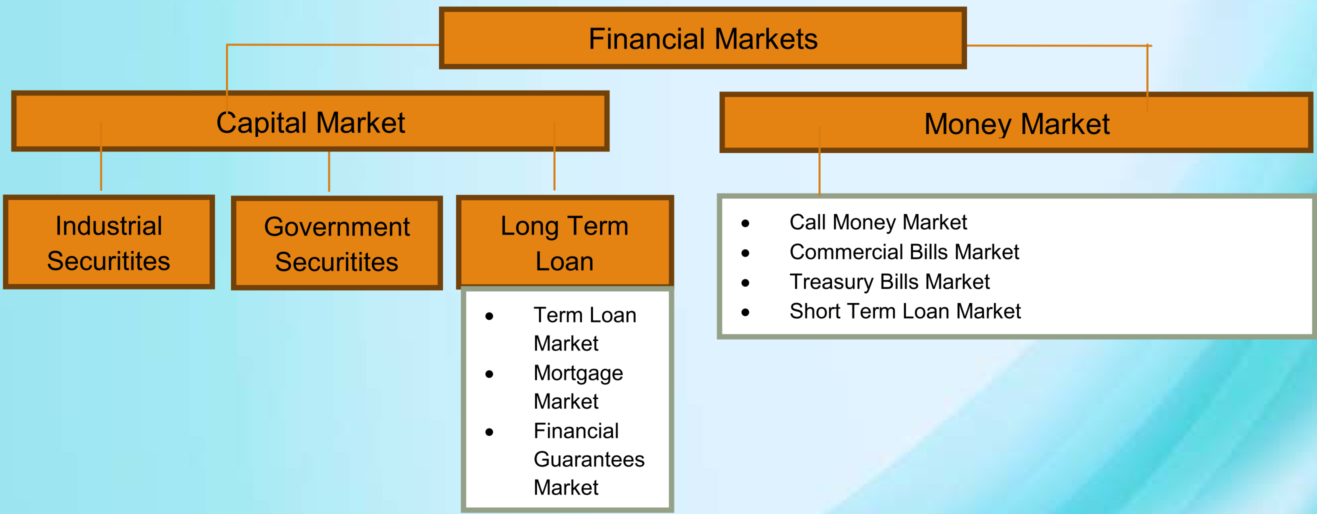
(ii) To serve as intermediaries for mobilisaton of savings

(iii) To assist the process of balanced economic growth

(iv) To provide financial convenience

(v) To cater to the various credit needs of the business house

Classification of Financial Markets



Financial instruments refer to those documents which represents financial claims on assets. As discussed earlier, financial asset refers to a claim to a claim to the repayment of a certain sum of money at the end of a specified period together with interest or dividend. Examples: Bill of exchange, Promissory Note, Treasury Bill

Financial Instrument

Primary / Direct Securities

- These are securities directly issued by the ultimate investors to the ultimatesavers. Eg. shares and debentures issued directly to the public.

Secondary / Indirect Securities

- Short Term - mature within a period of one year.Eg, Bill of Exchange, Treasury bill, etc.
- Medium Term - have a maturity period ranging between one and five years. Eg.Debentures maturing within a period of 5 years
- Long Term - have a maturity period of more than five years. Eg, GovernmentBonds maturing after 10 years

Financial services provided by various financial institutions, commercial banks and merchant bankers can be broadly classified into two categories:

Financial Services

Asset / Fund Based Services

- Equipment Leasing/ Lease Financing
- Hire Purchase and Consumer Credit
- Venture Capital
- Insurance Services
- Factoring

Fee Based Advisory Services

- Merchant Banking Services
- Credit Rating Services
- Stock Broking Services

The Indian Financial System is regulated by the two most important regulators:

1. The Central Bank of India - The Reserve Bank
2. Securities and Exchange Board of India

The Reserve Bank of India is performing various functions related to monetary management, banking operations, foreign exchange, developmental work and research on problems of economy.

The Securities and Exchange Board of India (SEBI) Was set on April 12, 1998. To start with, SEBI was set up as a non - statutory body.

It took almost four years for the government to bring about a separate legislation in the name of Securities and Exchange Board of India Act 1992 conferring statutory powers. The Act, charged to SEBI with comprehensive powers over practically all aspects of capital market operations.

CHAPTER 3:
The Indian Securities Market - Future Ahead

Securities are financial instruments issued to raise funds. The primary function of the securities markets is to enable the flow of capital from those that have it to those that need it. Securities market help in transfer of resources from those with idle resources to others who have a productive need for them. Securities markets provide channels for allocation of savings to investments and thereby decouple these two activities. As a result, the savers and investors are not constrained by their individual abilities, but by the economy's abilities to invest and save respectively, which inevitably enhances savings and investment in the economy.

An overview of Indian Securities Market

The market in which securities are issued, purchased by investors, and subsequently transferred among investors is called the securities market. The securities market has two interdependent and inseparable segments, viz., the primary market and secondary market. The primary market, also called the new issue market, is where issuers raise capital by issuing securities to investors. The secondary market also called the stock exchange facilitates trade in already-issued securities, thereby enabling investors to exit from an investment. The risk in a security investment is transferred from one investor (seller) to another (buyer) in the secondary markets. The primary market creates financial assets, and the secondary market makes them marketable.

Most of the trading in the Indian stock market takes place on its two stock exchanges: the Bombay Stock Exchange (BSE) and the National Stock Exchange (NSE). The BSE has been in existence since 1875. The NSE, on the other hand, was founded in 1992 and started trading in 1994. However, both exchanges follow the same trading mechanism, trading hours, and settlement process.

Almost all the significant firms of India are listed on both the exchanges. The BSE is the older stock market but the NSE is the largest stock market, in terms of volume. As such, the NSE is a more liquid market. Both exchanges compete for the order flow that leads to reduced costs, market efficiency, and innovation. The presence of arbitragers keeps the prices on the two stock exchanges within a very tight range.

Performance of Indian Stock Market in 2022

In 2022, the Indian Stock Market outshined the global market instead of conditions of high inflation, rising interest rates, geopolitical uncertainties, covid, currency swings, and FII selling. This year Indian stock market is placed on the bright spot as it has withheld and continues to outperform the global markets.

It has been a roller coaster ride for Global and Indian stock markets, and despite this, Nifty gained 5.6% as of 27th December 2022, even though there was a 10-20% fall in most global markets. Moreover, the Nifty 50 touched a fresh high in the month of November 2022 of 18,888, whereas the Nifty midcap gained 7.6% year to date.

What to expect from the Indian Stock market?

A stock exchange represents the performance of the companies listed on the stock exchange cumulatively, thus giving the investor an idea of the financial growth of the region. Microeconomic and macroeconomic factors, the business environment, the legal structure, and tax policies applicable to each economy affect stock market movements.

Short Term Outlook

Indian stocks that offered refuge from losses that plagued global equity investors in 2022 look set to lose momentum next year as sky-high valuations weigh on market enthusiasm. That is the consensus from analysts and strategists, who also expect the rupee to underperform emerging-market currencies broadly and the nation's bonds to benefit from inclusion in major global indexes. If there is some recovery in global growth and sentiment, over the next 6-12 months, some of these markets that have become oversold may do better than India because India has outperformed so much in the last 18 months as stated by Hiren Dasani, managing director at Goldman Sachs Asset Management. However, in the medium-term India will do much better because of the compounding opportunity of growth.

Long Term Outlook

The Indian stock market features among the leading ones globally but much needs to be done to improve the country's equity investment culture. Getting the basics right, along with having a broader bouquet of products, could well do the trick.

To begin with, there is a unanimous view amongst market participants that our stock market will be vastly different in 2047 than what it is today. Even in today's times, our markets are well advanced than many leading ones globally, with some of the best practices already available. But whether it is about the depth of the markets or the tech tools available for trading or even the products that investors can experiment with, it is perennially a work in progress as the last many decades have proved.

The Indian stock markets have come a long way from the trading ring era when brokers had to shout and use hand gestures in the iconic trading ring at the BSE- which happens to be Asia's oldest stock exchange-to buy or sell shares.

Technological advancement: A technological advancement has hit the stock market. All the tools that an investor needs to decide whether to buy or sell a particular security is today available on the smart phone by way of the trading apps that are offered by all the leading broking firms. This advancement is still work in progress and there would be several paradigms shifts that would be witnessed, putting Indian capital markets on the global map. Interestingly, no deep dive into future trends can be complete without talking about technology and disruption, and the capital markets are no different. The last decade or so has seen technology disrupt many aspects of the trading and investing arena with discount broking firms snatching away market share from traditional players and investing experience becoming totally seamless. The coming decades are expected to further ride on the tech bandwagon with trading apps becoming smarter and feature-rich.

New products and increasing demat accounts: The coming years should see the entry of newer product categories that would, in turn, attract more retail investors to the financial savings arena. This assumes significance as currently India has a little over 100 million demat accounts, which is a negligible number when seen in the light of the total population of more than 1.4 billion. However, there is no doubt that in the next 25 years, the investor base of the country would jump exponentially.

The participation of retails investors hit a peak in FY21, before moderating slightly in recent times. The number of stock investor in retail shows the strength of the economy in the increasing quantum of household savings which is getting invested in a well-regulated and structured investment option. For example, the growth of the investor base in the US between the 1980s and the 2000s, as the world's largest economy attained greater size, nearly half of its population entered the arena of financial investments. As the US went from a $3-trillion to a $10-trillion economy, the participation of investments moved from 3% of the population to 50%. The number of demat accounts went up tremendously.

The number of demat accounts is a function of stock market performance and this has been proved on the last couple of years. As per the market regulator, incremental additions of demat accounts have been on a declining trend for the past few months. The driving factor behind this declining trend is the market volatility seen on account of various global factors during the current year. Mediocre activity in the IPO market relative to the previous year might also have contributed to this trend.

However, market participants are confident that the number of demat accounts is set for an exponential rise as an increasing number of individuals look at equity ownership. An increment of 30%–40% in equity ownership level is estimated in the next 25 years. This jump will need launch of new products and some innovations that will attract new investors.

Real time settlement: The Indian capital markets have been a trendsetter of sorts in many aspects of trading, including being one of the fastest in terms of settlement of trades-now investors will get shares or funds in their accounts as early as next day of the transaction-and in certain areas related to risk mitigation and governance.

Indian also has the potential to move the real-time settlement regime which is currently not available anywhere in the world. This would reduce market risk resulting in cost saving and margin reducing. Also, there is the scope of investing in fractional shares. Fractional trading refers to a mechanism wherein an investor can buy a fraction of a share. The concept is already permitted in the US markets and many Indian investors have bought fractional shares of popular companies like Apple, Meta (earlier Facebook) and Alphabet, among others. Fractional shares would help investors achieve diversification at lower investment amounts while improving liquidity and depth that will grow equity culture and retail participation. A unified demat account would result in one account for every individual that will be used for all assets. Hence, fractional trading, along with tokenised real estate, could be among the key trends that could dominate the Indian markets by 2047 and attract new investors to the equity markets.

Exploring the debt and options market: While discussing the capital markets, a bulk of talks happen around the equity segment as it has a direct relation with average retail investor in the country. However, debt is also a huge segment too which is yet to be explored from a retail perspective. Hence, debt market can be activated in a very big way in the coming years. Moreover, having a deeper options market to hedge long-dated options is important, as options trading can be an effective tool for managing portfolio risk and exposure. The availability of longer-dated options contracts can be particularly beneficial for investors with a long-term investment horizon. Thus, a deeper options market could be the biggest change in the next 25 years from a risk management point of view.

Algos: Algorithmic trading (Algos in market terminology) refers to automated trading done on the basis of a pre-defined set of parameters using a software code. The orders get executed without any human intervention if the pre-defined parameters are hit. While algos have cornered a huge market share in many of the more developed equity markets across the globe, such automated trading is fast gaining popularity in India as well, with many participants estimating that in the coming decades, algos would further cement their place in the trading arena. BSE data, too, shows that the share of non-algo trades has come down to around 26% in December 2022 from as high as around 74% in December 2012.

Portfolio Management System (PMS): Portfolio Management Service (PMS) is aprofessional financial service where skilled portfolio managers and stock market professionals manage the equity portfolio of an investor with the assistance of a research team. The next 25 years is likely to be that of PMS, as the number of rich individuals in the country grows. Recent wealth studies have already highlighted the growing tribe of high net-worth individuals, or HNIs, in the country-especially those based in non-metro towns. The total assets under management (AUM) of the PMS industry is expected to grow 20-30 times in the coming two and a half decades, even though it will cover only a small proportion of the population given its minimum ticket size of INR 50 lakhs. The total number of discretionary PMS folios in India are just 130,000 and this is expected to be at least 1 million by 2047. The total AUM of discretionary PMS was just 2.65 lakh crore in FY22 even though it has grown six times in the last seven years.

The markets will certainly evolve and mature as time passes, but as India moves steadily towards its 100 years of independence, one area that requires special attention is that of financial education and literacy and if the concepts of saving, investing and financial planning are introduced at the school level, then the coming decades would definitely see a stronger and more resilient capital market.

CHAPTER 4:
International Investing: Managing a Cross Border

ASSOCHAM

LSI Financial Services Pvt. Ltd.

Global Investment Opportunities

International Investment is one of the investment strategies in which an investor diversifies his portfolio by purchasing various financial Instruments like shares, mutual funds, etc. or investing to acquire ownership or collaboration in different companies across the globe in order to maximize the return and to reduce their exposure to various investment risks.

International Investment provides an opportunity for investors to capitalize on the good performance of the foreign economy if their domestic economy's performance is relatively bad. These investments are mostly driven by the macroeconomic health of the country and most investors focus on the emerging economies.

Types of International Investments

On the basis of the use of investment foreign investments are classified into two categories:

- Foreign Direct Investment (FDI)
- Foreign Portfolio Investment (FPI)

Foreign Direct Investment: FDI is an investment when the investor invests in a business situated on foreign land in order to acquire ownership or collaboration. Through FDI investors establish a lasting interest with the business entity that implies the existence of the long-term relationship of the investor with the enterprises with a significant degree of influence on the management of the business.

According to the Organization of Economic Cooperation and Development (OECD), the direct or indirect ownership of 10% or more of the voting power in the business by foreign investors is considered under the category of FDI.

FDI transactions are done in mainly 3 ways:

1. Greenfield project
2. Joint ventures
3. Merger & Acquisition (M&A) also called Brownfield investment

Greenfield Projects: When FDI is used to start an enterprise in a foreign country from scratch and do not acquire an existing company to enter the market. Greenfield project also includes the construction of new plants, offices, etc.

Joint Ventures: When FDI is used to enter in venture with the foreign corporations in order to expand their business in a foreign country.

Brownfield Investment: It is another type of FDI transaction in which investment is used to merge or acquire an enterprise on foreign land. Joint Ventures and Brownfield investments are mostly used to enter the foreign market.

Foreign Portfolio Investment: FPI is an investment made in a foreign economy by an investor with no motive to gain any role in the management of any organization. Foreign Portfolio Investors purchase securities traded in another country, which is highly liquid and can easily get buyers when required. Such securities include instruments like stocks and bonds. FPI can be short-term in nature in cases when the investor wants a quick return due to a change in the exchange rate, interest rate, etc. Otherwise, the foreign portfolio investment is done with plans of holding onto the asset for the long-term, and such investments are driven by the growth rate of the economy, Macroeconomic stability, Interest rates, etc.

Factors affecting International Investments

Srl. No.	In Cases of FDI	In Cases of FPI
1	Ease of Doing Business of the country, like rules and regulations related to entry in the market and to support operations of the new greenfield business.	National economic growth rates, Exchange Rate stability and General macroeconomic stability.
2	Political and Social conditions of the economy.	Levels of foreign exchange reserves.
3	Policies on the functioning & structure of markets (esp. competition & merger and acquisition [M&A] Policies.	Interest rates.
4	Policies related to ease the business, such as investment promotion, incentives, improvements in amenities and other measures to reduce the cost of business.	Taxes on Capital gains.
5	Privatization Policy.	Regulation of the stock and bond markets.
6	Trade policy (barriers-tariff & non-tariff) and coherence of FDI and trade policies.	Quality of domestic accounting and disclosure systems.
7		Dispute settlement systems of the economy and degree of protection of investor's rights.

Investors through international investors can invest in foreign financial instruments and also expand their business in foreign territory. All the International investments are done through FDI or FPI route. These investments are highly rewarding but also carries risk with it, so it becomes very important to do proper analysis and due diligence before making such investments.

Trading in global stocks through GIFT IFSC: A win-win proposition

Investors opt for investment in international equities as these offers a great opportunity of diversification. Market generally do not move in tandem and hence under performance in one market gets offset by healthy performance in some other market. A well-diversified portfolio with global exposure reduces volatility, provides greater stability and smoothens the wealth creation journey of Indian investors. Moreover, cross border investments are also a means to industry diversification.

When investors buy foreign stocks for portfolio diversification, they are also effectively buying the currencies in which the stocks are quoted. For instance, if an investor invests in US stocks, any depreciation in the Indian rupee against the US dollar will provide additional returns to the investor, apart from any gains made by the movement of the US stocks. If the stocks underperform, gains through currency fluctuation can smooth out returns. All these factors prompted Indian investors to in their portfolio.

Currently, under the Liberalised Remittance Scheme (LRS), the Reserve Bank of India (RBI) allows resident individuals to remit a maximum of $250,000 or its equivalent abroad per financial year for permitted current or capital account transactions or a combination of both.

International Financial Services Centre (IFSC) at the Gujarat International Finance Tec-City (GIFT City)

So far, Indians have been either investing in foreign securities through the mutual fund (MF) route or through their brokers, who in turn have tie-ups with international brokers. The MF route has certain limitations as one must take exposure to a basket of securities and cannot buy an individual stock. The second option of investing through an international broker is expensive and fraught with certain risks. Though international investing has seen strong traction in India over the last few years, it got a new boost when the RBI expanded the LRS to the International Financial Services Centre (IFSC) at the Gujarat International Finance Tec-City (GIFT City) in February 2021. With this, for the first time, Indian retail investors were able to trade in stocks listed outside India, at GIFT IFSC.

India INX Global Access IFSC Limited (India INX GA), a wholly-owned subsidiary of India INX, a stock exchange at GIFT IFSC, offers stocks from the US, Canada, the UK, Europe, Australia, and Japan, covering about 80 per cent of the investing universe. It eventually plans to provide access to over 130 exchanges across 31 countries. The India INX GA platform is set to encourage resident individuals to transact and invest in global stocks in an easy and convenient manner under the LRS route. India INX GA has also tied up with multiple banks to bring down the cost of remittance of funds under the LRS. Indeed, GIFT IFSC offers flexibility in financial transactions, lower taxes and easier regulations as compared to other Indian hubs.

GIFT – IFSC to Propel Indian Economy

As more and more domestic investors start investing in foreign stocks, there will be an expected outflow of dollars, thereby leading to a deprecation of the rupee, which will be reversed once returns from such investments start to flow in. This is going to improve the economy as procuring dollar-denominated assets is more likely to act as a hedge rather than an exposure against any currency fluctuations.

Moreover, a vibrant IFSC will attract various financial services-related businesses. It also aids domestic companies to raise funds from overseas investors and help the Centre garner additional revenue over the long term. A thriving financial centre will lead to the development of market infrastructure institutions (MIIs) and provide a conducive environment for the existence of financial intermediaries. This, in turn, will create new employment opportunities and boost the infrastructure at the GIFT IFSC. The benefit of a vibrant market with wide participation and liquidity will spill on to other asset classes also, eventually ensuring that trading in asset classes done outside the country moves back to India.

Thus, GIFT IFSC can act as an important catalyst for economic development and thereby ensure an Aatmanirbhar Bharat.

Alternative Investment Funds (AIFs)

Alternative Investment finds are option to invest other than the traditional ones like stocks, bonds and cash.In India, AIFs are defined in Regulation 2(1) (b) of Securities and Exchange Board of India (Alternative Investment Funds) Regulations, 2012. It refers to any privately pooled investment fund, (whether from Indian or foreign sources), in the form of a trust or a company or a body corporate or a Limited Liability Partnership (LLP). Hence, in India, AIFs are private funds which are otherwise not coming under the jurisdiction of any regulatory agency in India.

Different Types of AIFs

As per Securities and Exchange Board of India (Alternative Investment Funds) Regulations, 2012 Alternative Investment Funds shall seek registration in one of the three categories

Category I: Mainly invests in start- ups, SME's or any other sector which Govt. considers economically and socially viable.

Category II: These include Alternative Investment Funds such as private equity funds or debt funds for which no specific incentives or concessions are given by the government or any other Regulator

Category III: Alternative Investment Funds such as hedge funds or funds which trade with a view to make short term returns or such other funds which are open ended and for which no specific incentives or concessions are given by the government or any other Regulator.

Benefits of Investing in AIFs

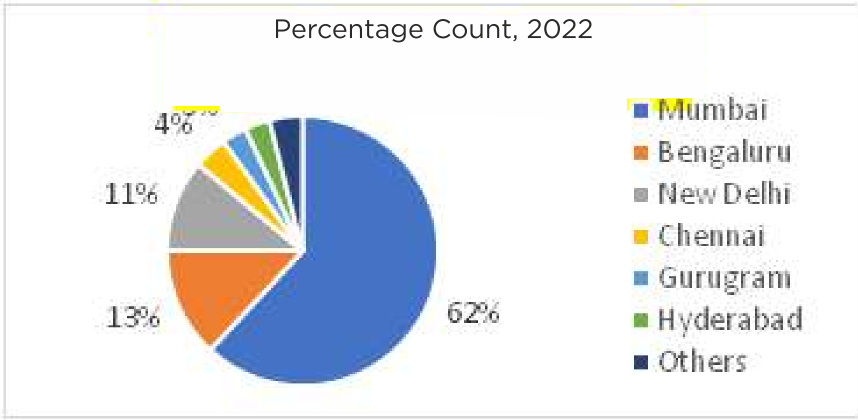
Security against volatility: Investing in Alternative Investment Funds is a great way to protect your investments from volatility and stabilise your portfolio. These schemes do not put their funds in investment options that trade publicly. Hence, they are not related to the broader markets and do not fluctuate with their ups and downs.

Excellent portfolio diversification: AIFs allocate their funds to a wide array of assets that are significantly more than most other investment vehicles. Thus, they provide excellent portfolio diversification that can safeguard your investments in times of market volatility or financial crisis.

Profitable returns: AIF investment returns are profitable as these funds have numerous investment options. They are a better source of passive income as compared to conventional investment instruments. Furthermore, the returns are less prone to fluctuations as these schemes are not linked to the stock market.

AIFs offer a higher rate of return as compared to conventional options but also need more investment while being riskier than mutual funds. These funds do not focus on the masses, they target sophisticated investors like HNIs from India and abroad who have large amounts of capital to invest.

Geographical Distribution of AIFs in India



Mumbai and Bengaluru account for 75% of all AIFs (Mumbai accounts for roughly two-thirds).

Mumbai-based funds are more likely to be Category II and Category III AIFs, while Bengaluru and New Delhi are more likely to be Category I AIFs.

As of May 2022, over 900 AIFs had been registered with the Securities and Exchange Board of India (Sebi), with capital commitments increasing at 63% CAGR between 2012 and 2022. Global alternative investment increased from $4.1 trillion in 2010 to $10.7 trillion in 2020 and is anticipated to reach $17.2 trillion by 2025. In fiscal 2021 and 2022, Indian start-ups raised $38 billion through 1,625 investment transactions. India added 15 unicorns by the first week of May 2022, for a total of 100 unicorns in India. AIFs stand to gain from the rapidly growing proportion of the population joining the HNI class.

Future Prospect of AIFs

Asia and the emerging economies, especially India, are poised for the next big growth in alternative investment products. In terms of assets under management (AUM), AIFs in India are at the same stage that mutual funds were at, in 2009. The market and the industry is now geared towards a paradigm shift towards alternative investment funds.

Overall investments through AIFs will grow at 25% CAGR between 2022 and 2025, led by wealth managers providing AIF products as alternatives to high net-worth individuals (HNIs), family offices, and insurance firms. Asia and the emerging economies, particularly India, are front liners for the next wave of alternative growth.

CHAPTER 5:
Alternative Investment Opportunities

Commodity Trading India

Commodities are the resources or raw materials that are used to manufacture refined goods.

Unlike finished goods, commodities are standardised, meaning that two separate units of a commodity in equal measure are identical irrespective of their origin or production. Thus, they are also interchangeable. Much like stock trading, wherein one can buy and sell shares of companies, with commodity trading one can do the same with commodity products. This trading happens on certain exchanges, and the aim is to generate profit from the changes in the commodity market through purchase and sale of the commodities. Trading commodities has evolved as a practice over the years. Moreover, the range of commodities in the market today is incredibly diverse.

Major Commodity Exchanges of India

- Multi Commodity Exchange of India
- National Multi Commodity Exchange of India
- Indian Commodity Exchange
- National Commodity and Derivatives Exchange

Types of Commodity Market

Commodity trading happens either in derivative markets of spot markets.

Spot markets are also known as "cash markets" or "physical markets" where traders exchange physical commodities, and that too for immediate delivery.

Derivatives markets involve two types of commodity derivatives: futures and forwards; these derivatives contracts use the spot market as the underlying asset and give the owner control of the same at a point in the future for a price that is agreed upon in the present. When the contracts expire, the commodity or asset is delivered physically. The main difference between forwards and futures is that forwards can be customized and traded over the counter, whereas futures are traded on exchanges and are standardized.

Most traded commodities

Globally, the most-traded commodities include gold, silver, crude oil, Brent oil, natural gas, soybean, cotton, wheat, corn, and coffee. Here is some insight into a few of these commodities

Crude oil: Crude oil is one of the most sought-after commodities. With several by products such as petroleum and diesel, the demand for crude oil is increasing every day, especially due to the boom in demand for automobiles. The high demand has even led to the eruption of geopolitical tensions all over the world. OPEC is a consortium of the nations that produce oil, and some of the top oil-producing countries are Saudi Arabia, USA and Russia.

Gold: Gold has always been an anchor for most people. When we see the price value of the US dollar fall, we start buying more gold for security and when the price value of the dollar goes up, gold prices tend to fall; they share an inverse relationship.

Soybeans: Soybean is also one of the top commodities, but is often impacted by factors like weather, demand for dollars and demand for biodiesel.

Types of Commodities traded in India

Cereals and pulses: Maize Kharif/south, Maize rabi, Barley, Wheat, Chana, Moong, Paddy (basmati)

Soft: Sugar

Fibres: Kappa's, Cotton, Guar seed, Guar gum

Spices: Pepper, Jeera, Turmeric, Coriander

Oil and Oil seeds: Castor seed, Soybean, Mustard seed, Cottonseed oil cake, Refined soy oil, Crude palm oil

Participants of Commodity Market

Speculators: Speculators drive the commodity market, along with hedgers. By constantly analyzing the prices of commodities they are able to forecast future price movements.

Hedgers: Manufacturers and producers typically hedge their risk with the help of the commodity futures market. For example, if prices fluctuate and fall during harvest, farmers will have to face a loss. To hedge the risk of this happening, farmers can take up a futures contract. So, when the prices fall in the local market, the farmers can compensate for the loss by making profits in the futures market. Inversely, if there is a loss in the futures market, it can be compensated for by making gains in the local market.

Benefits of Commodity Trading

Transparency in trading transactions - Since commodity trading takes place on the exchanges, there is no price manipulation by either buyers or sellers; there is total transparency. If the prices quoted by either party match, an exchange is executed. Price discovery of the commodities happens without manipulation, and this is one of the major plus points of online trading platforms. The lower margins in commodity futures are an incentive for small trades to utilise this sector for hedging risks and finding higher leverage.

Risk management: Trading happen in exchanges with total transparency. Therefore, there is little to no danger of counter party risk. The exchanges enforce proper risk management protocol in order to protect the investors.

Commodity prices are influenced by several factors which should be researched thoroughly in order to employ effective trading strategies. Having a good understanding of the demand-supply chain is essential too. Additionally, with higher leverage, the risk of commodity trading rises too. Knowledge on the types of commodity trading, types of commodities and price movements are essential for trading in commodity markets.

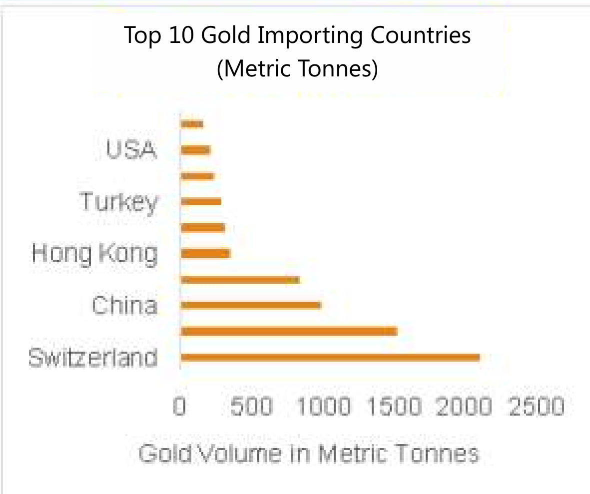
The Future of Commodity Trading

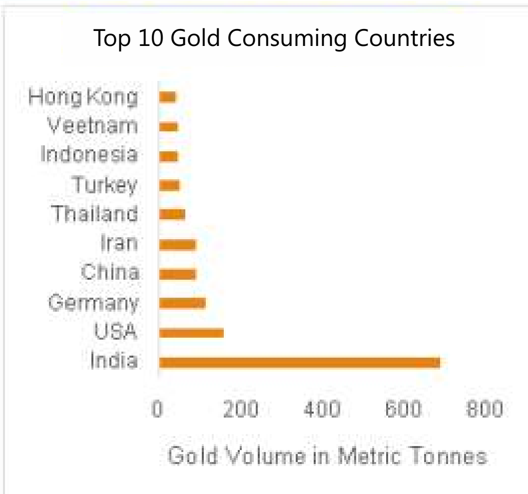
Research from the World Bank shows that the quantities of consumption of many commodities has risen over the past years, as there has been a corresponding growth in global demographics as well as growth in incomes. However, due to innovations in the technology sector, the relevance of commodities has seen a shift. This is largely because technological advancement has given rise to new ways of use of some raw materials, and some commodities have been substituted so that they may not be required at all. Regarding the growth of technology, this is one of the key variables that will have an effect on commodities and commodity trading in the future. Commodity markets will see the following developments:

- More international connectivity within energy markets. For instance, the price of LNG connects with major international gas markets, taking local markets to a global platform.
- Markets trade in real time. For example, gas and power can now trade in just 10-minute slots in various nations, in contrast to daily slots previously. Intraday trading in commodities has hit new highs. There are also advanced algorithms to deal with new structures in commodity markets and trading thereof.
- Due to the broad scope of environmental transformation, there are new commodities on exchanges, like bio fuels.
- Commodity markets are now more competitive than ever, and this is only going to rise with technology growth.

Gold as an asset class

Households in India have been investing in gold jewellery and coins for many centuries. Indian households have a long history of investment in Gold. The private household gold holding in India as in 2017 was estimated at 24,000 Metric tons and valued at US$ 800 Billion (World Gold Council 2017). Though India is not among the top producers of Gold in the world as of today, India has been among the largest consumers of Gold and importer of Gold. High imports of Gold adversely affected the current account deficits. Gold was the second largest commodity in the import basket of India during the year 2012-13, contributing significantly to current account deficit.

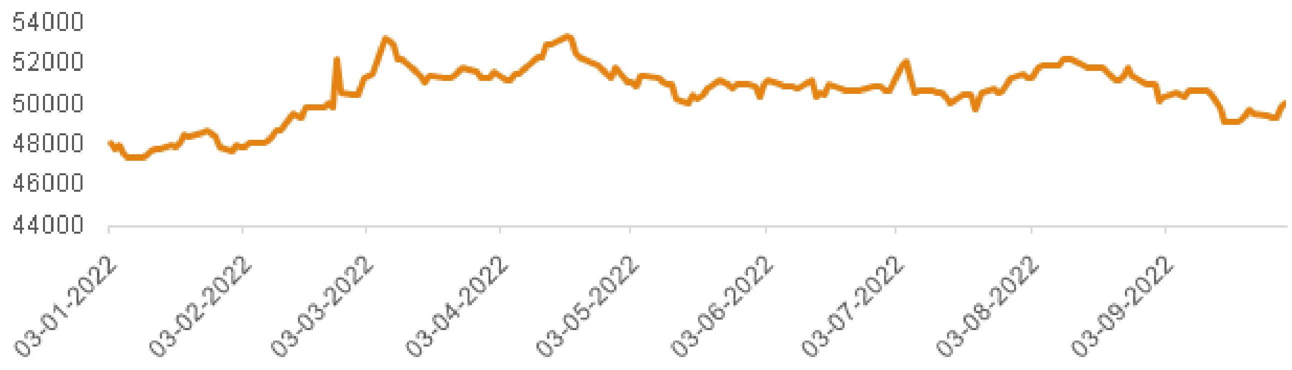




Source: World Gold Council

In order to disincentivise the import of Gold, the government of India came out with various trading and administrative curbs and increased duty on gold imports, which resulted in fall in the prices of Gold and fall in imports. The 5-year average data from 2012 to 2017 showed that 80% of gold imports were used in Jewellery industry, 2.5% in Exchange -Traded Fund (ETF), 1.4% by industry and 16.1% in bullion for investment. The government also launched various other investment schemes like Sovereign Gold Bonds in order to facilitate investments in securities that aimed at providing returns similar to an investment in Gold. SEBI permitted the launch of Gold ETFs, which also facilitated investors to take exposure to Gold as an asset class without having to directly invest in Gold.

Sopt Prices of Gold in INR/10Gms, Ahmedabad, January 2022 - September 2022



Gold Exchange Traded Fund

Gold ETF – First Gold-backed ETF was introduced in Australia by ETF securities in March 2003 with an AUM of $602 million. Since then, the Gold ETF has been very successful in capturing the investor interest across many countries as a viable alternative to investments in physical Gold. Holding gold ETF instead of physical Gold helps investors to save taxes, both Goods and Services tax and wealth tax and concerns of purity and storage safety are eliminated. In India, Gold ETF is subject to long term capital gains tax. However, the returns on Gold ETF investment can be less compared to the price movements in Gold due to the costs like brokerage and commissions paid for the transaction, meeting the expenses of the fund managing the gold ETF. Additionally, when gold ETF is held in Demat account, the Demat account maintenance charges are also an annual cost that affects the returns. Further, some of the Gold ETF is not as liquid as Gold.

Sovereign Gold bonds

The sovereign Gold bond was introduced in 2015 by RBI on behalf of Government of India. These bonds are issued at values denominated in grams of Gold based on the value of 24-carat gold prevailing at the time of issue. The tenure of the bond is eight years, and the bonds are listed in the stock exchanges.

The investor is provided with an option to exit the scheme on completion of 4 years of holding period. The bonds also offer interest at 2.5% per annum payable semi-annually. The minimum investment specified is 1 gram, and the maximum permissible investment is 4 kg per individual. The sovereign gold bond issue size per year with several MCX in four categories based on the minimum lot size that is the Gold regular (lot size-1 kg), Gold mini Ahmedabad (lot size 100 gram), Gold Guinea Ahmedabad (lot size 8 grams) and Gold petal Mumbai (lot size 1 gram). The MCX has also introduced Gold options with underlying as Gold futures (options on futures) and Gold (called as options in goods/ commodity). Gold is one among the more liquid contracts traded on the exchange. Despite the above fact, the penetration of Indian commodity exchanges as compared to global exchanges is very low. Traditionally, banks and financial institutions were not allowed to participate in the exchange trading. With the recent change in regulations permitting institutions to participate, it is expected that trading volumes on the exchanges will increase in the future.

Conclusions

Gold is regarded as a symbol of wealth, status and investment in India. Individuals and households consume gold jewellery and coins regularly, and the culture of buying Gold during festive occasions, gifting Gold during weddings is practised for many years. India is a significant consumer of Gold, and Gold was the second largest commodity in the import basket of India in the early part of the current decade. Thus, gold imports contributed significantly to the current account deficits. Government of India brought about various restrictions in the import of Gold and alternatively introduced Sovereign gold bonds and promoted Gold ETF as an investment product that provided Gold like returns. Traditional saving avenues like bank fixed deposits, government bonds, post office savings schemes have failed to provide adequate returns to investors.

Equities and Mutual fund investments have emerged as additional alternative investment options for individuals. Despite the emergence of various alternate investment options, Gold continues to be favoured investment product due to reasons like the ability to return positive annual returns over long periods, liquidity consistently, acts as a good hedge and helps to diversify portfolio risk. The gold investment products like gold bonds and gold ETF vary from Gold in various aspects related to risk and returns. The relative positioning of the products is summarised in the table below:

Criteria	Physical Gold	Gold ETF	Sovereign Gold bond
Issuer	Jeweller or gold dealer	Mutual fund	RBI on behalf of Government of India
Denomination	Any quantity based on availability and need	The minimum investment amount is specified.	In grams of Gold. Minimum 1 gram and Maximum 4 Kg per individual
Tenure	Not specified	Depends on investor	Eight years with an option to exit after four years
Liquidity	Return to a jeweller. High	Can be traded in the exchange Some ETFs are illiquid.	Listed in the exchange. Generally, illiquid with fewer trades.
Cost	Additional cost for storage and taxes capital gains and wealth tax. Jewellery - wastage and making charges	Subject to capital gains tax. Expenses by Mutual funds, transaction and Demat cost	Tax-free upon redemption. In addition, provides an interest return of 2.5% pa receivable semi-annually, which is taxable as income.
Returns	Match the price of Gold prevailing	May not track the prices exactly	Issue prices can be slightly different from prevailing gold prices.

Investment in sovereign gold bonds can be an attractive option over gold jewellery due to upfront excess cost paid towards making charges and wastages. Sovereign gold bonds also provide a return of 2.5% per annum on the investment, which is not provided by Gold or gold ETF. Since, the redemption of the first series of bonds issued is yet to take place, depending on the redemption value and actual returns, the attractiveness of the same can be ascertained. Gold as an asset class for investment – either as direct investment or as a reference for value accretion will continue to stay. So long as the Gold glitters as an asset class, derivative trading in Gold will flourish.

Real Estate Investment Trusts (REITs)

Infrastructure and real estate contribute heavily to the growth and development of ay economy. In India, real estate and infrastructure go hand in hand and hence receive regular boost for the government to ensure continued economic growth.

A well-planned infrastructural set-up contributes to a continued inflow of foreign investments and adds to the capital base required for a sustainable growth of every economy. Real estate sector growth complemented by development in the corporate environment helps in increasing demand for office space and accommodations. Due to the lack of availability of public funds, the sector constantly needs additional channels of financing. This is when REIT or Real Estate Investment Trust comes into the picture.

What is REIT?

A Real Estate Investment Trust (REIT) is an investment instrument that offers proportionate ownership of an income-generating real estate asset to retail investors. Historically in India, investors have been investing in real estate by purchasing a property or land via real estate developers and property brokers. In such investments, investors had to rely on long-term market value appreciation of the property to generate a return on investment. This, however, was only possible when real estate markets would be on an upswing. Developers also had to fund projects by sourcing money through loans from banks, PE firms, etc and this usually meant high-interest rates.

In 2008, the Security and Exchange Board of India (SEBI) came up with draft guidelines that allowed investors to establish REITs as an asset class. The intent was to make it easier for foreign investors to invest in the Indian real estate market and make funding easily available for local developers.

REITs were first introduced in the USA back in the 1960s on similar lines as mutual funds. These were initiated to boost real estate development through existing investments from investors who were interested in real estate exposure.

At the time, since the real estate market was booming, it presented many opportunities to reap large dividends on the investments made. This paved way for real estate development projects and rewarded the investors financially.

In India as the investment vehicle started gaining popularity, there were many regulations announced to facilitate smooth operations of these investment funds. Today, REIT companies that are listed on the Indian stock exchanges are constantly monitored and fall under the regulation of the Securities and Exchange Board of India or SEBI.

Types of REIT

Mentioned below are some of the commonly available varieties of REITs in India:

Equity REITs: These REITs primarily invest in offices, residential complexes, industrial estates, hotels etc. They buy, manage, set-up and sell real estate. The income earned is distributed to investors as dividends. Income is mostly generated through rentals and sale of properties.

Mortgage REITs: These REITs loan out money to buyers of real estate, and some may even buy-out existing mortgages. They are also referred to as mREITs. These derive income from the interest received through mortgage loans. They work somewhat like a debt mutual fund, however, the risk component is often higher in REITs.

Retail REITs: Retail REITs invest in the retail segment like shopping malls, grocery stores, hypermarkets, supermarkets, etc. However, retail REITs do not run these retail outlets. They only focus on renting out the space to various retail tenants. Returns in this case depend on the performance of the retail sector.

Residential REITs: Residential REITs buy and operate apartment buildings, gated communities, and other such housing establishments. Whenever the residential property demand in India grows, these REITs reflect a positive growth.

Healthcare REITs: Healthcare REITs invest in real estate for hospitals, medical establishments, health clinics, etc. Since the demand for healthcare services has been on a rise in the last few years, these REITs present a good investment opportunity for investors.

Performance of Indian REIT

As per a report, listed Real Estate Investment Trust (REITs), India saw a 6.85% year-on-year (YoY) growth in the total leasable area. From only 87.6 million square feet (msf) in Sep'21 to 93.6 msf in Sept'22. Mindspace REIT was one of the top performers with absolute returns of 8.11% in the YTD Oct'22 period. Brookfield India REIT came in second with 7.30% absolute returns. These two were followed by Embassy REIT with 1.40% absolute returns during the same period.

Advantages and Disadvantages of Investing in REITs

Advantages

Diversification: REITs are good assets for the diversification of your investment portfolio. They offer real estate exposure without the hassle of owning and managing any commercial property. Therefore, they are an asset class that you can consider for diversification beyond the usual asset classes – equity, debt, and gold.

Low Investment: Real estate investments are usually high-ticket investments that require greater capital. They are a good alternative to these high-ticket investments. The initial investment for REITs is around INR 50,000. Therefore, you are able to achieve real estate exposure to your investment portfolio with low investments.

Professional Management: A REIT is a trust, association or corporation, and hence professionals manage them. You do not have to worry about managing commercial real estate properties.

Regular Source of Income: REITs generate income through rents. It distribute 90% of the rental income to the investors as interest and dividend payments. Therefore, investors can enjoy regular income from their investments.

Capital Gains: REITs trade on the stock market, and their performance determines their value. A well-performing REIT can thus possibly increase in value and investors can sell it at a profit over time. The investor can then enjoy the Capital Gains from their investments.

Disadvantages

Limited Options: They are fairly new to the Indian markets. Currently, there are only a few options available, and hence limiting the investor's choices.

Liquidity: Though REITs trade on the stock market, the number of active retail participation is low. Therefore, liquidating REIT investments can be challenging in times of emergencies.

Taxation: The interest or dividend income from REITs is entirely taxable in the hands of the investor. This income will be a part of the taxable income. And it will be taxable as per the applicable tax rates.

Difference Between REITs and Real Estate Mutual Funds

Basis of Difference	REITs	Real Estate Mutual Funds
Investment	Directly invest in real estate	Invest in REITs and stocks that deal in real estate.
Diversification	Narrower diversification	Offer wider diversification
Dividends	90% of REITs' taxable income is paid as dividends or interest to the investors.	Real estate funds offer value through appreciation, and therefore, are not regular income-generating options.
Trading	Trade on major stock exchanges, just like stocks. Their prices fluctuate during trading hours.	Real estate mutual funds do not trade on the stock market, and the prices are updated only once a day.

REITs are real estate investments that help diversify an investment portfolio and also hedge against inflation. Hence, investors looking for investments other than stocks and bonds can consider investing in real estate investment trusts.

With SEBIs recent regulations, the minimum investment has considerably reduced to INR 15,000. Also, the lot size has been reduced to one unit. Hence, investors who can afford to invest this amount can go ahead and invest.It pays regular income in the form of a dividend. They are long term investments and investors looking for a long-term investment can consider investing in them.

What lies in future for REITs?

Favourable government policies (e.g., enabling investment by foreign portfolio investors) and long-term investment outlook has attracted many marquee investors including sovereign and pension funds to raise their stakes in such assets.While REITs have raised capital of over US$4 billion in India, a funding requirement of over US$1.4 trillion by 2025 is estimated by the National Infrastructure Pipeline announced by the Government of India.

REITs should have a well-diversified asset base with income accruing from multiple properties often spread across multiple cities and tenants from diverse sectors. Diversification of asset base reduces the volatility of rental income and the investor is less exposed to a single asset risk.

Also, the assets of REITs are generally Grade A office buildings which witness higher rentals and occupancy levels within a micro-market. An occupancy rate of 85-90% is a good number.

CHAPTER 6:
Family Office Management-Beyond Portfolio Management

ASSOCHAM

LSI Financial Services Pvt. Ltd.

Decodify Family Offices - How a Multi-Family Office works?

The sovereign Gold bond was introduced in 2015 by RBI on behalf of Government of A family office is a financial advisor firm that provides comprehensive wealth management services to a single individual or family. A multi-family office simply expands on the same concept. Instead of working with just one family or individual, a multi-family office provides holistic wealth management services to a variety of different families and other ultra-high-net-worth individuals. Multi-family offices tend to be registered investment advisors (RIAs), but they may also be law firms, accounting firms or other types of companies. This is by virtue that multi-family offices provide advice and help with a wide range of investment and financial matters.

Multi-family offices may vary significantly in the types of services that they provide or the types of clients they choose to work with, since they work with high-net-worth clients.

While family offices are quite common, multi-family offices tend to be fewer and farther between. A multi-family office is sometimes formed when a single-family office merges with another single-family office or decides to take on additional clients. Larger wealth management firms may also create a multi-family office division, or a team of financial professionals may create a multi-family office firm from scratch.

Functions of a multi-family office

Functionally, a multi-family office provides the same service as a family office, but to more than one family or individual. While a wealth management firm typically provides investment portfolio management services and financial planning services, a multi-family office's services extend beyond the strictly financial.

Multi-family offices are typically registered investment advisors (RIAs), but they do not have to be. These types of organizations provide a wide array of services, which can include legal, insurance, business and tax services, as well as investment management, estate planning and charitable giving expertise. A multi-family office may even provide personal concierge services to clients, which handle personal matters and lifestyle needs.

However, most family offices and multi-family offices provide investment advising services, so they are often lumped in with traditional wealth management firms that work with a variety of different clients.

Another key difference that makes a multi-family office stand out is the fact that it will typically only work with ultra-high-net-worth individuals and families. Typically, these people will have more than $30 million in investable assets.

Common financial services provided by multi-family offices include:

- Accounting and reporting
- Financial planning, including investment advice and risk management
- Insurance analysis and management
- Managing multi-generational wealth, such as securing the future of new family members, inheritance and wealth transfer services
- Philanthropy (including private foundations)
- Tax advisory and regulatory compliance
- Trusteeship and estate planning

Many multi-family offices include additional administrative and lifestyle services, such as:

- Assisting in family governance
- Concierge medicine
- Coordinating all family staff
- Family education and mentoring
- Family security
- Large purchases, such as aircraft and new properties
- Legal services (often with an in-house legal counsel who coordinates with specialized lawyers as needed)
- Overseeing wine and art collections
- Property management (including aircraft and yachts)
- Travel planning
- Additional concierge service on demand

The benefits and down sides of multi-family offices

Multi-family offices provide a single point of contact for an ultra-affluent family's financial needs. Benefits of the multi-family office model include

- Optimizing the overall investment strategy across asset classes.
- Control – multi-family offices regularly evaluate the performance of all team members. Any asset manager who fails to meet the expected yield can quickly be removed.
- Coordinates all advisors to work towards an integrated wealth strategy specific to the family's needs
- Ensure privacy and confidentiality while providing services to all generations of the ultra-affluent family. As baby boomers retire, then need for intergenerational wealth transfer advice will substantially rise.
- Family members gain time to enjoy their wealth that was previously spent managing it

- Finances and investments are managed in the context of the full family balance sheet, allowing for optimum efficiency
- Low employee to client ratios to allow for responsive and personalized service
- Multi-family offices streamline the family's financial and legal affairs, allowing for a clear overview and greater control over the direction of the family's assets
- One dedicated contact for all financial needs eliminates redundant communications with various private banks, advisors, and other services
- Unbiased financial advice provided with a complete understanding of the family's assets and liabilities. Multi-family offices do not sell products and thus eliminate conflicts of interest.

There are some down sides to the family office model. Family offices are more expensive to operate than employing traditional wealth management firms. As costs are shared between member families in a multi-family office, the model negates some of the down sides of a single-family office. A multi-family office can spread the cost of investments over a larger asset base and achieve higher cost efficiencies. Multi-family offices can increase investable assets by adding a new family to the existing platform.

Multi-family offices are also less personalized than a single-family office. However, a well-run multi-family office can still provide a level of personalization and responsiveness sufficient for many ultra-affluent families. Additionally, you will benefit from the expertise gained by the staff of your chosen multi-family office from supporting other ultra-affluent families.

How family offices need to work in future?

The number of UHNIs was 6,884 in 2020 and this number is expected to go up to 11,198 by 2025. With the surge in wealth, there will be growth in demand for personalised and tailor-made wealth management solutions. To meet the demand, family offices need to transform the operation and investment outlook and build competencies to manage a diversified range of investment mandates.

Estate Planning and Business Continuity Planning

Estate Planning is the process of preserving, managing and dispersing the assets of an individual in the event of their demise. It is now gaining momentum and is being considered by many individuals to preserve the family wealth, avoid family disputes and ease out the process after their death, especially since the onset of the pandemic.

An individual's immovable assets like properties, movable assets like car, cash, jewellery, shares and stocks, insurance policies and others, debts, loans and even financial obligations become an important part of estate planning.

Types of Estate Planning

Estate planning can be done in the following three ways:

- Through a Will
- By forming a Trust
- By forming a Limited Liability Company (LLC)

Estate Planning through a Will

A Will is a legal document which is prepared during the lifetime of the person (known as a Testator) but comes into existence after his demise. A Will is a legally enforceable document that entails the wishes of the testator (writer) for the distribution of the assets post death. The essential features of a Will are as follows:

- Clarity on who gets assets – what and how much.
- Exclude estranged people.
- Helps in taxation.
- It becomes a public record, removes future ambiguities.
- Authenticating a Will by the court, known as probate, makes the Will bullet-proof.
- A Will cannot be challenged in court if all necessary elements are fulfilled.
- Declares the testator's wishes regarding distribution of his assets and possessions after his demise.
- Should be made by the testator in sound disposing mind and without any coercion or undue influence from any person.

Estate Planning through a Trust

A Trust is a transfer of property by the owner to another for the benefit of a third person along with or without himself or a declaration by the owner, to hold the property not for himself and another. A Trust is hence an arrangement between the author of the Trust and the trustees to transfer the legal ownership of assets to the trustee with an obligation that the same should be held for the benefit of the beneficiaries as specified in the Trust deed. The key features of a Trust are as follows:

- Trusts can be used to achieve a variety of specific goals.
- It has six broad categories – living, testamentary, funded, unfunded, revocable and irrevocable – thus, making it a flexible option.
- A Trust maintains confidentiality about the assets and their value.
- Effective in reducing taxation on capital and income, particularly for the beneficiary.
- Allows for distribution over time, in case you do not trust the beneficiary to handle all assets at once.
- One of the major advantages of a Trust is that if the person goes bankrupt or faces other financial crisis, then the lender cannot touch the assets which are held within the Trust.
- The subject matter of the Trust is the property in respect of which the Trust has been created.
- The subject matter should be defined with certainty and such property should be capable of disposition.

For the purpose of estate planning, a Private Trust can be created when the purpose of the Trust is to benefit an individual or a group of individuals or their descendants for any legal purpose who is capable of holding property.

Forming a Limited Liability Company (LLC)

One of the emerging modes of estate planning is forming a limited liability company (LLC). LLC can be a useful legal structure as the assets will be under control of the estate holder during his lifetime and at the same time it can be passed down to the next generation while avoiding or minimizing estate and gift taxes. Following are the key features of an LLP:

- Asset protection and reduced estate and gift tax.
- Can be used for personal investment purposes.
- Allows control over assets during a lifetime, which pass onto legal heirs at the time of death.
- Add anyone to a membership role in an LLC, but each member must be at least 18 years old.
- Involve your minor relatives in an LLC by creating a Trust that includes them as a beneficiary; intersection of Trust and LLC.

Estate planning has taken added importance in the lives of families. However, it requires careful planning and consideration to ensure that no dispute or in-family fighting occurs after the estate creator's death. Apart from the standard Wills and Trusts method, LLCs have also come to assume center stage when it comes to estate planning. The revival of estate planning is welcome as it helps reduce litigation in family disputes.

Business Continuity Plan (BCP)

A business continuity plan (BCP) is a system of prevention and recovery from potential threats to a company. The plan ensures that personnel and assets are protected and are able to function quickly in the event of a disaster.

- Business continuity plans (BCPs) are prevention and recovery systems for potential threats, such as natural disasters or cyber-attacks.
- BCP is designed to protect personnel and assets and make sure they can function quickly when disaster strikes.
- BCPs should be tested to ensure there are no weaknesses, which can be identified and corrected.

Understanding Business Continuity Plans

BCP involves defining any and all risks that can affect the company's operations, making it an important part of the organization's risk management strategy. Risks may include natural disasters—fire, flood, or weather-related events-and cyber-attacks. Once the risks are identified, the plan should also include:

Determining how those risks will affect operations

Implementing safeguards and procedures to mitigate the risks

Testing procedures to ensure they work

Reviewing the process to make sure that it is up to date

BCPs are an important part of any business. Threats and disruptions mean a loss of revenue and higher costs, which leads to a drop in profitability. And businesses can't rely on insurance alone because it doesn't cover all the costs and the customers who move to the competition. It is generally conceived in advance and involves input from key stakeholders and personnel.

Benefits of a Business Continuity Plan

Businesses are prone to a host of disasters that vary in degree from minor to catastrophic. Business continuity planning is typically meant to help a company continue operating in the event of major disasters such as fires. BCPs are different from a disaster recovery plan, which focuses on the recovery of a company's IT system after a crisis.

Consider a finance company based in a major city. It may put a BCP in place by taking steps including backing up its computer and client files offsite. If something were to happen to the company's corporate office, its satellite offices would still have access to important information.

An important point to note is that BCP may not be as effective if a large portion of the population is affected, as in the case of a disease outbreak. Nonetheless, BCPs can improve risk management—preventing disruptions from spreading. They can also help mitigate downtime of networks or technology, saving the company money.

The Bottom Line

Business continuity plans (BCPs) are created to help speed up the recovery of an organization filling a threat or disaster. The plan puts in place mechanisms and functions to allow personnel and assets to minimize company downtime. BCPs cover all organizational risks should a disaster happen, such as flood or fire.

CHAPTER 7:

Recommendations for the Indian Financial System

To fulfil the dream of making India a $5 trillion Economy in the near future, the country will need reforms on tax, trade, infrastructure, and government structure. These in turn will need the support of a strong and stable financial sector and subsequent progress on financial reforms. One of the most critical elements of the economy that urgently needs to function well in order to facilitate India's strong and sustained recovery from the pandemic is the financial system. The financial system plays a vital role in converting savings into investments without which no production and employment can possibly take place.

Following are our recommendations for the effective functioning of the Indian financial system:

1. **More importance to be given to credit growth:** The financial sector here generates a low level of credit compared with other countries. India's credit-to-GDP level is 55%. That compares with 136% in Malaysia and 70% in Brazil. This trend has taken hold despite the fact that India's gross domestic savings rate, at nearly 30% of GDP, is in line with peer countries. The savings are sufficient, but the system does not use them effectively. To reach the goal of building a $5-trillion economy, credit will have to grow at a much faster pace while maintaining good credit quality and avoiding excessive risk taking. More credit would help meet India's needs in areas such as housing, SMEs and infrastructure. India's annual infrastructure finance gap is expected to average 0.7% of GDP through 2035, more than twice the global average of 0.3%.

2. **Reduced role of public sector in financial system:** India's recent attempts to shore up the financial system in the form of RBI monitoring the asset quality and government coming into action by consolidating major public sector banks is worth a mention. It is hoped that these steps will form the basis of a broader strategy to reduce the role of the public sector in the financial system. A mix of private-capital injections into state banks and full privatizations would boost the sector's ability to support credit, would facilitate effective financial intermediation, and would reduce moral hazard and fiscal exposures.

3. **Deepening of capital markets:** India's capital markets can play a pivotal role in helping the nation attain its economic ambitions. Equity market capitalization stood at INR 252.4 lakh crores in February 2023 which is up by 5.1% from February 2022. However, the debt market remains at a nascent stage of development. The debt market remains highly skewed toward government securities, while the corporate bond market is dominated by top-rated financial and public-sector issuers. Corporate-bond issuance amounts to roughly 3.94% of GDP, much less than in other emerging markets. Deepening India's capital markets could complement bank financing in fostering growth, helping to create new market niches and attract interest from domestic and foreign institutional investors. Deeper capital markets can be an important way to increase the flow of long-term finance, especially given the asset-liability mismatches in the banking sector. Around the world, long-term financing is increasingly a major focus of

institutional investors such as pension funds, insurance companies, mutual funds and sovereign wealth funds. A revision of India's guidelines for domestic institutional investors is needed so more resources can flow to long-term finance. Another useful measure would be to adapt the funding models of development-finance institutions so they can expand in market-based funding. As capital markets deepen, new infrastructure-finance instruments could attract more institutional investors.

4. **Strengthening the non-banking financial companies:** The concept of pledging gold for emergency funds has been around for centuries. It is one of the easiest and fastest ways to access funds when it matters the most. It is widely popular in rural markets and is used as an effective tool to avail short-term credit by the rural population to meet the capital requirement for business, an agrarian community for various Agri-production needs, or personal commitments. Gold loan focused NBFCS have been fulfilling the credit demand of under-penetrated markets with typically small ticket sizes ranging between INR 50,000 to INR 1 lac. Offering Priority Sector Lending status to the gold loan will pave the way for the banks to participate with more potency and fund gold loan NBFCs at a subsidized rate. The lower cost of funds will ultimately benefit the borrowers with lower borrowing costs. It will aid in greater institutionalization of gold collateralized credit.

   Currently, MUDRA refinance is available only up to INR 1 million. The government could look into increasing the limit and give broad contours for eligibility – age, ticket size, end-use, cost of funds to intermediating NBFC, spreads etc. The policymakers could set guidelines for the intermediating NBFCs to define underwriting criteria such as classification norms for secured and unsecured loans, disbursement timeline, documentation requirement and loan amount. It will boost the fiscal growth of entrepreneurs in the micro category between INR 1 to 5 million.

5. **Investment in technology in financial services:** Since the Covid-19 pandemic, financial services industry has successfully navigated the unprecedented level of uncertainty. Financial services organizations globally faced the pandemic with remarkable resilience and adaptivity, helping people, organizations and governments to get back on their feet. Indian financial sector needs to invest heavily in technology to replace legacy alternatives and explore the power of artificial intelligence and machine learning. The BFSI space has adapted to digital in a big way especially post COVID-19. Big Banks and Insurance companies have followed footsteps or have partnered with many fintechs given the innovation the fintechs have brought especially around customer experience in Financial Services.

6. **Financial sector reforms with a holistic approach:** When we think of reforms of the financial system, it is imperative to adopt a holistic approach that takes into account not only what is wrong in a specific part of the financial system but also what other parts of the financial system need to be fixed in order for the reforms to have the desirable outcomes. The discourse on the financial system is often focussed on a particular sector like banking or the bond market, and consequently, the usual narrative is concentrated around narrow sectoral issues. This kind of a narrowly defined view can be problematic because the financial system does not operate in independent silos.

   A sound credit system must include a well-run banking system as well as a well-developed bond market. Non-banking finance companies (NBFCs) cannot perform their functions effectively without a strong banking system and a liquid bond market. Large pools of domestic capital such as mutual funds and insurance, cannot be invested unless there are well-functioning securities markets. Securities markets cannot function effectively unless they are regulated well. In other words, savings in the economy get intermediated through multiple different channels – both markets and institutions – that are, by construction, highly interdependent and interconnected. The legal and regulatory foundations of markets and institutions are critical to their functioning, and a reform measure has a higher likelihood of failing if it is not accompanied by necessary changes to the legal and regulatory setup.

7. **Focusing on financial literacy:** Even though the personal finance market has developed rapidly over the past several years, there is still a need for increased financial literacy to simplify the industry for customers. According to a recent SEBI survey, just 27% of the country's citizens are financially educated. This shows how much more financial awareness is required nationwide, but particularly in Tier 2/ 3 cities and beyond.Investment in a well-balanced insurance portfolio is a vital and never-to-be-forgotten part of personal finance. Customers need to realise that insurance will not only help to secure their families' futures but will also act as a safety net for the financial corpus that is being created. Consumer education regarding the value of insurance and various insurance products is a top priority for both traditional insurance businesses and newer digital insurance providers. Developing financial literacy from the school level will be a very important step as it will teach students the basics of money management: budgeting, saving, debt, investing, giving and more. That knowledge lays a foundation for students to build strong money habits early on and avoid many of the mistakes that lead to lifelong money struggles.

Finally, it should be reiterated a strong financial system will be supporting India's goal of becoming a $5 trillion economy. Allowing more private sector participation in the financial system, making it easier for funds to flow into capital markets, and properly regulating systemically important NBFCs are all ways for the financial sector to evolve in a direction that can position India for fast, broad-based growth. A modernized financial system is essential to delivering it.

In recent decades, India has made impressive progress in building a financial sector that fits its unique development needs. Yet in a world where payments can be sent with a click of a button from the most basic cell phone, it is crucial that countries have financial sectors that ensure stability while offering deep, well-regulated markets and being agile enough to respond to rapid innovation in the industry.

LSI Financial Services Pvt. Ltd.

LSI Group Profile

LSI Financial Services Pvt. Ltd. was established in 1997 and is a SEBI registered Category 1 Merchant Banker. The vision of the company is to provide services relating to Project Finance Advisory, Techno Economic Feasibility Study, Financial Restructuring and Asset &Equity Valuation to esteemed Financial Institutions and corporate houses. With senior bankers and eminent industry experts, who are supported by 150 professionals in the team, the company has gathered vast experiences in almost all the sectors in the last two decades.

LSI has empowered more than 200 large corporate houses in India with its suite of financial solutions. Today LSI is present across the major Tier I and Tier II cities of country.

The company in addition to its focus on debt syndication, Issue Management, PE Advisory, & M&A Advisory, lays significant stress on creating knowledge pools on economically important topics.

LSI Financial Services Pvt. Ltd. has three other group companies under its umbrella offering a gamut of services in the engineering, legal and financial advisory domains.

LSI Engineering & Consultants Ltd.

Established in 2015, LSI Engineering & Consultants Ltd. is a project management consultancy company. It has undertaken numerous large projects across India in road sector under NHAI, PWD across the country. It has a strong team of very experienced engineers having domain knowledge in road, water & other infrastructure projects.

The company is also registered with Indian Bank Association (IBA) as an agency for specialised monitoring and it is handling project monitoring/cash monitoring etc. for various large industries on behalf of esteem financial institutions of the country.

LSI Resolution Pvt Ltd.

LSI Resolution Pvt Ltd offers a spectrum of services related to Resolution & Insolvency encompassing the Insolvency and Bankruptcy Code (IBC 2016), which was enacted to provide the legal and legislative framework to support lenders effectively to recover or restructure defaulted debts in a time bound manner. As an entrusted IBBI registered Insolvency Professional Entity, the company has helped insolvency professionals to successfully manage & completed more than 30 corporate insolvency resolution process of big companies across India in all sectors.

Resolute Valuers & Consultants Pvt Ltd.

Resolute Valuers & Consultants Pvt Ltd. Is a key player in valuation appraisals. Its efficient and experienced team is composed of senior bankers, technical experts, industry experts, registered valuers, experienced engineers, chartered accountants, cost accountants, etc. Registered with IBBI as a Valuer Entity, the company carries out valuation of all classes of assets i.e., Land & Building, Plant & Machinery and Securities & Financial Assets. It has undertaken valuation of very large infrastructure and manufacturing companies. The company has also participated in Government of India's disinvestment projects.

As a group to ensure consistent and high-quality solutions, LSI accord on recruitment of premium human resources and consequently, LSI has in place a highly motivated and knowledgeable team that shapes its mantra of "Creating value, Partners in growth" into reality.

The company takes pride in being client-centric and look forward to continuing its services to aid the economy by enabling optimal financial and technical solutions in the domestic and international arena.

LSI GROUP PRODUCT CATALOGUE

LSI FINANCIAL SERVICES

Debt Division	Debt Syndication	Debt Restructuring & Re-scheduling	Techno Economic Viability Study (TEV)
Investment Banking	Merchant Banking	Mergers & AquisitionsDiligence	Due Diligence
Project Appraisal	Financial & Technical Appraisal	Qualitative Appraisal	Appraisal for Land Allotment

LSI RESOLUTION

Resolution & Insolvency Division	IPE Services	Process Advisory Services	Liquidation Advisory Services

LSI ENGINEERING & CONSULTANTS

Engineering Services	Detailed Project Report (DPR)	Lenders Independent/ Authority Engineer	Project Appraisal Consultancy

AGENCY FOR SPECIALISED MONITORING (ASM)

RESOLUTE VALUERS & CONSULTANTS

Valuation	Asset Valuation	Equity Valuation	Enterprise Valuation

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About us

ASSOCHAM initiated its endeavor of value creation for Indian industry in 1920. Having in its fold more than 400 chambers and trade associations and serving more than 4,50,000 members from all over India. It has witnessed upswings as well as upheavals of Indian economy and contributed significantly by playing a catalytic role in shaping up the trade, commerce and industrial environment of the country.

Today, ASSOCHAM has emerged as the fountain head of knowledge for Indian industry, which is all set to redefine the dynamics of growth and development in the technology driven cyber age of 'Knowledge Based Economy'. ASSOCHAM is seen as a forceful, proactive, forward looking institution equipping itself to meet the aspirations of corporate India in the new world of business. ASSOCHAM is working towards creating conducive environment of India business to compete globally.

ASSOCHAM drives its strength from its promoter chambers and other industry/ regional chambers/ associations spread all over the country.

Vision

Empower Indian enterprise by inculcating knowledge that will be the catalyst of growth in the barrier less technology driven global market and help them upscale, align and emerge as formidable player in respective business segments.

Mission

As a representative organ of Corporate India, ASSOCHAM articulates the genuine, legitimate needs and interests of its members. We believe education, Health, IT, BT, CSR and environment to be the critical success factors.

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