

REAL RETURNS

Franklin fiasco: How you should vote

AARATI KRISHNAN

Investors in six debt schemes of Franklin Templeton Mutual Fund have had to face torrid times for seven months after the fund house dropped its bombshell in April on plans to wind up these schemes.

Since then, they have been denied access to their money and the way forward has been clouded by the case doing the rounds of courts.

This week, Franklin Templeton (FT) sent out notices to investors seeking their votes for winding up. Here's an explainer to help you decide how to vote.

Q. I already received a notice from FT on April 24 saying that that six schemes were being wound up. Why are they again seeking my vote?

Because the courts have asked them to get investor permission before they proceed with it. When FT issued its first notice in April, it took the view that under section 39 of SEBI's mutual fund regulations, its trustees could take a unilateral decision to wind up any scheme. It proposed to take unitholder approval only for asset disposal after this decision.

But activist investors challenged both FT's winding up decision and this interpretation in the courts. They argued that under Section 18, trustees of a mutual fund cannot wind up any scheme without unitholders approving it first. The Karnataka High Court has ruled that FT trustees could initiate winding up only after first getting the approval of investors by simple majority.

Q. FT's trustees have said that voting 'Yes' is best for me, will lead to 'orderly' winding up and fetch

You can vote 'Yes' and still demand that SEBI or the courts act on the results of investigations



'maximum value'. If I vote 'No', they say, the scheme will make distress sales which will lead to losses on my NAV. Is this accurate?

This is the FT trustees' interpretation of the situation. If you vote 'No', the trustees' actions in April will stand invalidated. The fund will then have to re-open the six schemes for fresh redemptions. The fear is that if the six schemes are re-opened now after seven months, investors will rush to redeem their units.

The schemes may need to sell bonds that they hold before maturity. Many of them are lower rated and illiquid and their market sales are unlikely to fetch good value. Remaining closed for redemptions can help FT attempt negotiated sales or hold bonds to maturity hoping for full repayment, though this isn't guaranteed.

Q. If I vote 'Yes', when will I get my money and how much haircut will I take?

There is uncertainty around both. If FT holds its bonds till maturity and gets full repayment, then you can expect your monies back broadly in line with the maturity profile of your scheme disclosed by FT on November 27.

As per this, Ultra Short Bond should be able to encash 82 per cent of its assets by April 2022, Low Duration Fund 79 per cent, Dynamic Accrual 57 per cent and Credit Risk 74 per cent.

For Income Opportunities and Short Term Income, 49 per cent and 77 per cent of repayments are scheduled from May 2023 to April 2025. Schemes that already hold significant cash can make quicker repayments.

As of November 27, Ultra Short Bond Fund held 46 per cent of its assets in cash and call money, Low Duration Fund 48 per cent, Dynamic Accrual 33 per cent and Credit Risk Fund 14 per cent, but Short Term Income and Income Opportunities had borrowings. The amount you get should broadly

correspond with the NAVs at the time of repayment. But both the timing and the amount you will get are subject to issuers not defaulting or delaying repayments.

Q. What will be implications of voting 'No', as some activist and investor organisations have advised?

This advice is based on three arguments. The organisations believe that FT is guilty of mismanaging its debt schemes. They believe that SEBI was wrong to allow FT to borrow in excess of regulatory limits.

They also believe that if FT is allowed to proceed with its winding up with a 'Yes' vote, it will get away scot-free on the timing of repayments and may end up selling its bonds at deep discounts too, shifting the burden of illiquidity and credit losses entirely to its investors.

They, therefore, argue that FT's debt schemes ought to be investigated for mismanagement, with the AMC or sponsor making good any losses if this is proved. They also argue that unitholders need to be paid the official NAV as of April 23 2020 in a timebound manner with the Court overseeing the process.

If the majority of investors vote 'No', the schemes will be re-opened for redemption - unless the court specifically stays it. This could lead to a scramble for redemptions. You will need to wait until the court delivers its judgement and hope for a favourable verdict to get full repayment.

Q. Looks like a devil-and-deep-sea choice.

It certainly is. You can vote 'Yes' and still demand that SEBI or the courts act on the results of investigations.



IMPLICATIONS

'Yes': Orderly closure of the schemes
'No': Schemes re-open for redemption, unless court stays it

TAX QUERY

SUDHAKAR SETHURAMAN



Some time back, I read the government would facilitate capturing capital gain tax details from mutual funds (both short and long term) in 26AS. However, I am not able to find this in my 26 AS. Can you clarify, please?

T. MANI

Effective 1 June 2020, as per Rule 114-I of the Income Tax Rules 1962, the new form 26AS (Annual Information Statement) shall provide detailed information related to assessee's specified financial transactions entered in the financial year (FY).

Such Annual Information Statement shall contain comprehensive information relating to:
- Taxes deducted or collected at source (TDS/TCS),
- Specified financial transactions (purchase of shares, immovable property, purchase/sale of goods, property and services, purchase of shares/bonds/debentures/units of mutual funds, etc. subject to specified threshold limits),
- Payment of taxes,
- Pending/completed proceedings etc.

In view of the above, in case any taxes are deducted at source from the capital gains transactions, or purchase of mutual funds are more than the specified limit (aggregate of INR 10 lakhs in a FY) it shall reflect in the new Form 26 AS once it is updated in the tax portal.

I purchased a plot in the year 1984 for a sum of ₹2,100. Now, I want to sell the same which may fetch a sum of ₹30 lakh. Please advise on capital gains tax liability.

KANDASAMY PARAMASIVAN

As per Income-Tax Act, 1961 (the Act), gain arising from the sale of a capital asset is taxable under the head "capital gains". Further, the gains will have to be sub-classified into long term or short term depending on the period of holding of the asset. This, in turn, would also determine the rate of taxation of the gain, deductions that can be claimed and associated conditions.

As the plot purchased by you was held for more than two years, it qualifies to be a long-term capital asset (LTCA). The resultant gains on sale of LTCA will qualify as long-term capital gains (LTCG) and taxable at the rate of 20 per cent as per section 112 of the Act, with applicable surcharge and cess.

Section 48 of the Act provides for mode of computation of capital gains. Any expenditure incurred wholly and exclusively in connection with the transfer of an asset or acquiring the asset and for making any improvement to the asset shall be deducted to arrive at the taxable capital gains. The cost of acquisition of the plot of land shall be higher of the actual cost of such asset to you (i.e., ₹2,100) or fair market value as on April 1, 2001 and such cost of acquisition can be increased with reference to the cost indexation index (CII) corresponding to the year of sale and as on April 1, 2001. Further, with effect from April 1, 2020, such fair market value should not exceed the stamp duty value of the immovable property as on April 1, 2001.

Under specified sections viz. section 54EC, section 54, etc., deduction/exemption under the Act could be claimed by way of either investing LTCG in the prescribed bonds or investing LTCG/net consideration in buying a residential property in India, subject to conditions and as per the specified timeline prescribed under the Act.

The writer is Partner, Deloitte India. Send your queries to taxtalk@thehindu.co.in

DE-TAX

Deductions beyond Section 80C

Here are a few more options for you to save a decent amount of tax

ANAND KALYANARAMAN
BL Research Bureau

The financial year end is just about four months away, and it's time to get going on your tax-saving investments if you haven't done so yet. Now, besides the usual Section 80C instruments (up to ₹1.5 lakh a year), there are other ways to deploy money and save tax. Use these too to good effect.

But note that like Section 80C of the Income-Tax Act, other tax breaks are also only for those in the existing tax regime (that has higher tax rates along with benefit of tax deductions and exemptions).

Here are some key tax breaks beyond Section 80C.

NPS plus

Not only are investments in NPS - Tier 1 allowed under Section 80C - you can also put an additional ₹50,000 and claim tax deduction under Section 80CCD. This can translate into annual savings of ₹2,600 for those in the 5 per cent tax slab, going up to ₹15,600 for those in the 30 per cent tax slab. While the tax break is a sweetener, the NPS is a cost-effective pension plan to help you provide for post-retirement income.

Health cover

Given the high cost of medical treatment, it's always good to have adequate health insurance cover for yourself and the family.

It helps that Section 80D gives a deduction of up to ₹25,000 a year for the premium you pay to get health insurance for yourself, your spouse and your dependent children; this goes up to ₹50,000 if any of you is a senior citizen. If you pay the premium to cover your parents, you get an additional deduction of up to ₹25,000 a year (₹50,000 if either of your parents is a senior citizen).

Expense on preventive health check-ups are also eligible for deduction up to ₹5,000 a year. This is part of the overall limit.

Donations

Donate to institutions and funds approved by the Government - these get you deduction under Section 80G of the Income-Tax Act. Give money; you won't get the benefit if you give in kind such as food items, clothes and utensils. Also, cash donation is eligible only up to ₹2,000 a year. So, if you want to give a larger sum, give via non-cash



the year in which the property is acquired or constructed. This deduction though is subject to the ₹2 lakh overall limit.

Interest on loans on let-out property is allowed even in the new tax regime, but subject to certain restrictions.

Interest on bank/PO accounts

Interest on savings deposits with banks, post office or co-operative societies have to be declared as income. But Section 80TTA allows deduction of such interest up to ₹10,000

a year. This benefit is not available on interest from other deposits such as fixed deposits.

Senior citizens get a higher benefit. Under Section 80TTB, their interest income on deposits (including fixed deposits and savings account deposits) is eligible for deduction up to ₹50,000. But with this, the ₹10,000 deduction under Section 80TTA will not be allowed.

Other breaks

Besides, there are other deductions such as contribution to political parties under

Section 80GGC, medical expenses incurred to treat specified illnesses under Section 80DDB, and medical expenditure incurred on disabled dependents under Section 80DD; these are subject to certain conditions and limits.

Also, subject to conditions and limits, salaried employees are eligible for tax breaks on incomes such as HRA (house rent allowance), leave travel allowance and leave encashment on quitting the job. Salaried employees also get standard deduction of up to ₹50,000 a year.

GOOD FOR HEALTH

Section 80D gives a deduction of up to ₹25,000 a year for the premium you pay to get health insurance for yourself, spouse and dependent children. The benefit goes up to ₹50,000 if any of you is a senior citizen

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Regd Office: Baid Hi Tech Park, 8th Floor, No 129 B, East Coast Road, Thiruvanniyur, Chennai-600041.
CIN: U65990TN2014PTC096252 | www.samunnati.com
Tel: 91-044-66762400 | Email: secretarial@samunnati.com

Statement of Unaudited Financial Results for the half year ended 30 September 2020

(Rs. in Millions, except per equity share data)

Sl. No.	Particulars	Half year ended 30 September 2020	
		Reviewed	Unaudited
1	Total Income from Operations	698.60	538.43
2	Net Profit / (Loss) for the period (before Tax, Exceptional and / or Extraordinary Items#)	29.78	62.99
3	Net Profit / (Loss) for the period before Tax (after Exceptional and / or Extraordinary Items#)	29.78	62.99
4	Net Profit / (Loss) for the period after Tax (after Exceptional and / or Extraordinary Items#)	23.12	43.85
5	Total Comprehensive Income for the period [Comprising Profit / (Loss) for the period (after Tax) and Other Comprehensive Income (after tax)]	21.96	43.31
6	Paid up Equity Share Capital	3.60	3.27
7	Reserves (Excluding Revaluation Reserve)	5,009.78	5,007.11
8	Net Worth	4,948.27	5,005.93
9	Paid up Debt Capital / Outstanding Debt	6,386.120	3,098.249
10	Outstanding Redeemable Preference Shares *	16.16	16.16
11	Debt Equity Ratio *	1.29	0.62
12	Earnings Per Share (of Rs.10/- each) (for continuing and discontinued operations)		
	1.Basic :	64.17	119.31
	2.Diluted :	10.56	21.57
13	Capital Redemption Reserve *	0.07	-
14	Debt Redemption Reserve *	-	-
15	Debt Service Coverage Ratio *	-	-
16	Interest Service Coverage Ratio *	-	-

Notes:

- Samunnati Financial Intermediation & Services Private Limited ('the Company') is a Non-Banking Financial Institution (NBFI) incorporated on 23 June 2014 and has its registered office at No: 129-B, 8th Floor, Baid Hi Tech Park, ECR, Thiruvanniyur, Chennai - 600113. The Company has received Certificate of Registration dated 25 February 2016 from the Reserve Bank of India to carry on the business of Non-Banking Financial Institution without accepting deposits. The Company is classified as Non-deposit taking systemically important NBFCs (NBFCs-NDSI).
- The financial results for the half year ended 30 September 2020 have been reviewed by the Audit Committee and approved by the Board of Directors at its meeting held on 11 December 2020.
- The financial results have been prepared in accordance with recognition and measurement principles laid down in the Indian Accounting Standard 34 "Interim Financial Reporting" ("Ind AS 34") as prescribed under Section 133 of the Companies Act, 2013 ("the Act") read with the Companies (Indian Accounting Standards) Rules, 2015, as amended from time to time, and other accounting principles generally accepted in India. The Company has adopted Ind AS from 01 April 2020 with effective transition date of 01 April 2019 and accordingly, these financial results together with the results for the comparative reporting period in accordance with the recognition and measurement principles as laid down in Ind AS prescribed under Section 133 of the Companies Act 2013 ("the Act") read with relevant rules issued thereunder and the other accounting policies generally accepted in India. The transition to Ind AS has been carried out from the erstwhile Accounting Standards notified under the Act read with Rule 7 of Companies (Accounts) Rules 2014 (as amended), guidelines issued by the Reserve Bank of India ("the RBI") and other generally accepted accounting principles in India (collectively referred to as 'the Previous GAAP'). Accordingly, the impact of transition has been recorded in the opening reserves as of 01 April 2019 and the corresponding adjustments pertaining to comparative previous period / half year as presented in these financial results have been restated / reclassified in order to conform to current period presentation.
- Debt Redemption Reserve is not required in respect of privately placed debentures in terms of Rule 18(7)(b)(ii) of Companies (Share Capital & Debenture Rules, 2014).
- Debt Service Coverage ratio & Interest service coverage ratio is not applicable for NBFC and accordingly no disclosure has been made.
- Previous year's figures have been regrouped / reclassified wherever necessary, to conform with the current period presentation.

For and on behalf of the Board of Directors of
Samunnati Financial Intermediation & Services Private Limited
Sd/-
Anil Kumar S G
Director & Chief Executive Officer

Place: Chennai
Date: 11 Dec 2020