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BUSINESS NEWSLETTER

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WHAT ARE MUTUAL FUNDS?



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SEBI'S NEW NORMS FOR MUTUAL FUNDS



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UNDERSTANDING NGOs IN INDIA



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PAYTM GOOGLE FEUD: WHAT COUNTS AS DIGITAL GAMBLING?



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1 What Are Mutual Funds?

SEBI recently announced a major change in mutual funds investment. Before we delve into that, let us understand more about mutual funds, their various aspects and how to calculate their value.

What Is A Mutual Fund (MF)?

- It is an **investment company**, which brings together money from many people and invests in stocks, bonds, or other assets.
- Fund's portfolio includes combined holdings of stocks, bonds, or other assets it owns.
- The entire amount of investment is distributed in units. Investors, also called **unitholders**, buy these units instead of buying stocks directly.

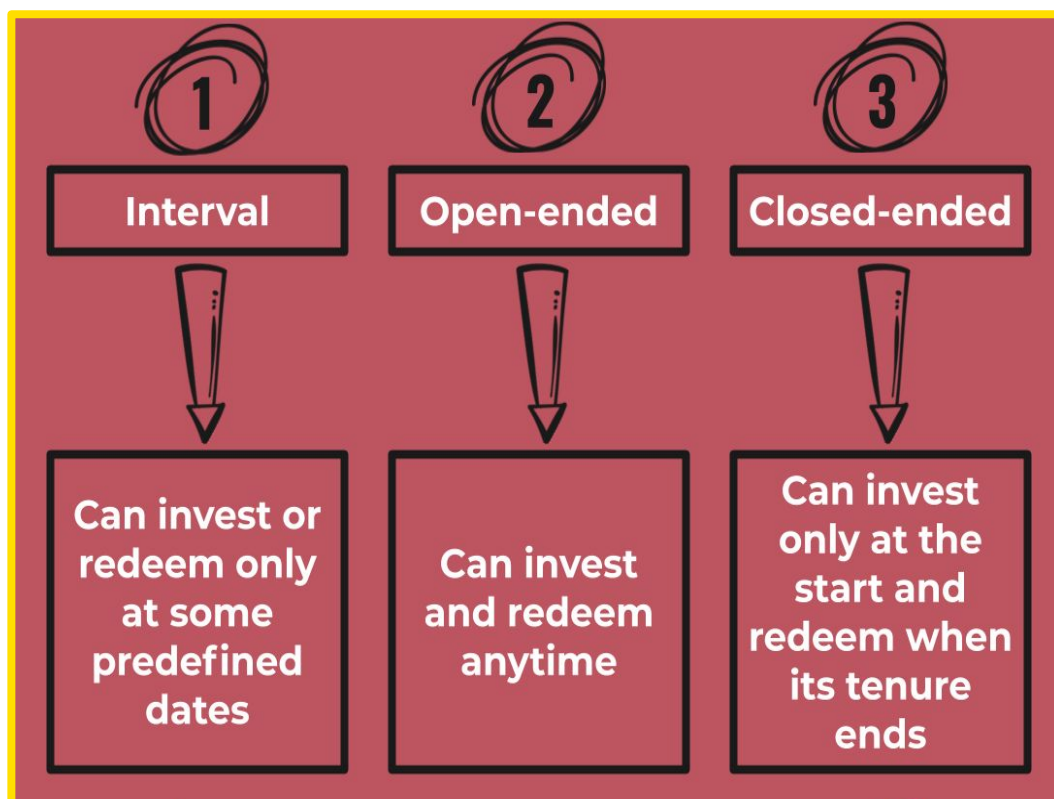
Active & Passive Management

- **Portfolio management** is the process of managing underlying assets (equity, debt, gold, etc) through buying, selling, and holding. MF can be:
 - a) **Passively managed**: It generally involves replicating a benchmark index, in which a fund

SUMMARY

manager tries to match the returns of the set benchmark.

b) **Actively managed**: When a manager actively looks after which assets to buy, sell, or hold based on quantitative, technical, and/or fundamental analysis.



Types of Mutual Funds

Did you know? An **index fund** is a mutual fund designed to follow certain preset rules so that the fund can track a specified basket of underlying investments.

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2 SEBI Announced New Norms For Mutual Funds

After SEBI announcement of new norms, multi-cap mutual funds have a compulsion to invest **25%** each in mid, large, and small capitalization funds. Let us try to understand the impact of this move on investors.

What Is A Multi-Cap MF?

- It is the one that invests across equities with varied market capitalization, i.e. large-cap, mid-cap, and small-cap wherein **Market Capitalisation** = Share price x Number of outstanding shares.
- Minimum equity allocation will also increase from **65%** to **75%**.
- Mutual funds have been told to abide by the new rules by end of **January 2021**.

What Would Be The Impact?

- Experts say that **investors** who have already invested in mid and small-cap funds will be **benefited**. As demand for mid and low cap stocks increases, so will their price.

What's The Response Strategy?

- **Investors** can **switch their funds** from multi-cap to other equity funds. MFs can merge/dissolve multi-cap funds with large-cap funds or large-mid cap funds.

	SMALL CAP	MID CAP	LARGE CAP
Companies with average market cap (this is subject to change)	< ₹5,000 crores	₹5,000 crores to ₹20,000 crores	>₹20,000 crores
Ranking in stock exchange in India	251 st company onwards	101 st -250 th companies	1 st -100 th company
General risk level*	High	Moderate	Low
Liquidity of shares	Low	Moderate	High
Institutional investor's investments	Low	Moderate - High	High

Explainer on Market Capitalization

Did you know? One can also convert multi-cap to **ESG** (Environmental, Social, and Governance) **funds**, in order to maintain the same investment process.

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3 Understanding NGOs In India

Lok Sabha recently passed the Foreign Contribution (Regulation) Amendment (**FCRA**) **Bill 2020**, changing rules regarding funds for Indian NGOs from foreign while tightening the existing laws.

What Are Non-Governmental Organizations (NGOs)?

- There is a lack of clear definition of **NGOs**, since it represents a variety of different interests and a multitude of not-for-profit activities.
- However, generally they are the organizations formed by people on a **voluntary basis** working independently of government intervention in India.

NGOs V/S NPOs or Non-for-Profit Organizations

- NGOs can be trust, society, or non-profit making company but NPOs can only be non-profit-making companies, i.e. **NPOs are a category of NGOs**.
- The working spectrum of NGOs is very wide such as betterment and development of society whereas NPOs work in particular fields like promoting art, science, research, commerce etc.

Types Of NGOs On Legal Basis

- **Trust** – private or public, it can be charitable organizations registered under the **Indian Trust Act, 1882**. Public charitable trust is exempt from Income Tax.
- **Society** – It is another form of NGO that can be registered under the **Societies Registration Act, 1860**. It may be entitled to Income Tax exemption if it falls under certain charitable aspects as directed by the Income Tax department.
- **Section 8 Company** – NPOs can be formed under Section 8 of the **Companies Act, 2013**.

Did you know? NGOs can be misused to convert black money to white or legal money. This is done by donating money to NGOs and the latter returns it as payment for goods or services it was supposed to purchase. In this way, a **taxpayer** and the **trust** get **tax exemption** for the “contribution” and money received respectively.

4 PayTM Google Feud: What Counts As Digital Gambling?

Google **took down** Paytm and Paytm First Games from its Play Store after the former alleged Paytm's Cricket Fantasy game to be a breach of its gambling policies. The digital payments app accused Google of discrimination by pointing out that its Tez app has a similar strategy for cashback promotions.

What Happened?

- On 18th Sept' 2020, Google blocked Paytm from its Play Store after the 'PayTM Cricket League' was started by the latter in its 'PayTM First Games' section.
- A policy update ahead of IPL was made by Google, which stated that they will discontinue apps that support any **unregulated gambling**.

Paytm Restored

- The app was **restored** a few hours later after Paytm rolled back the campaign. However, on 20th Sept' 2020 Paytm claimed that to get re-listed on the Play store, it was forced to roll back the campaign.

Paytm's Allegations of Discrimination

- Paytm in its blog alleged Google of **discrimination** and mentioned that Google Pay's campaign of **Tez Shots** utilizes similar strategy for cashback.

Google's Response

- A spokesperson from Google defended against allegations and mentioned that their policies do not allow any unregulated gambling apps.
- They enforce this policy on all developers.

Sharma's call for New Groupings

- Paytm founder Vijay Shekhar Sharma, asked for a **formation** of new grouping which will give representation to the domestic tech firms.
- As established industries are dominated by US - tech companies, a new platform will ensure that **local tech firms** are heard and represented.

Did you know? In 2019, a Bombay High Court bench said that **Dream11** was “undoubtedly a game of skill and not a game of chance”. Dream11's app is also not listed on Google Play Store. Mobile Premier League, another sports fantasy contest app, is also not listed on the Play Store.

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Hope you enjoyed reading!

For feedback, suggestions, or just to have a quick chat, reach out to us at communications@summachar.in.