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राष्ट्रीय प्रतिभूति बाजार संस्थान
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NiSM

VRIDDHI

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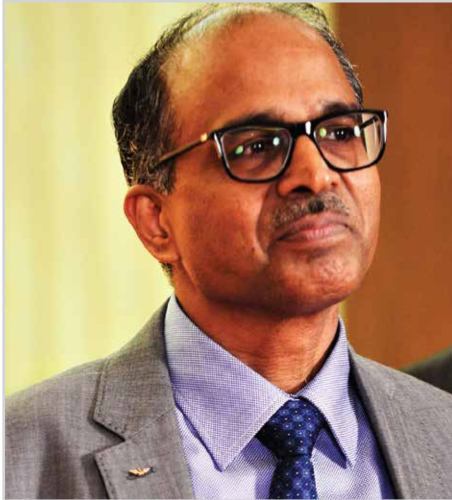

Message from the Director, NISM

NISM is a premier institute providing various educational, certification and training programmes in the securities markets. The articles by our students in their magazine "VRIDDHI" demonstrate their talent and capabilities. NISM, over the years, have delivered highly talented students to manage various positions in the financial markets.

Bringing out such publication will foster a sense of commitment and fulfilment among the students by facilitating linguistic and cognitive development. It also provides a forum for interaction and exchange of ideas.

I congratulate all contributors for writing these excellent articles.

Dr. C K G Nair
Director, NISM

Message From Student's Chief Editor

Dear readers

Warm Greetings.
It is with delight and honor that I behold the launch of NISM's student's magazine, 'Vriddhi' as the Chief Editor of the Student Editorial Board. National Institute of Securities Laws (NISM) has been established under the aegis of Securities & Exchange Board of India (SEBI). Vridhi aims to further the objectives of SEBI & NISM in disseminating commercial awareness and financial literacy while offering a prestigious arena for the writers.

The magazine offers the space to the students of NISM to express their views in light of issues concerning Economics, Compliance/Regulatory aspects, Financial Analysis, Fixed Income & Portfolio Management, Banking, General Management, and Commodities & Financial Markets. Vriddhi highlights the work of candidates pursuing various academic courses at NISM; i.e:- LL.M., PGDM, PGCSM, PGP, PGCM and all other academic courses offered herein.

2021 gave us all much-needed time to reflect within, reconnect with inner thoughts, and realize all that one is grateful for. As Vriddhi's editorial team, we realized the importance of writing as a form of expressive therapy. It may be pertinent to mention that apart from being a creative, easily accessible and versatile form of therapy; writing reflects multiphasic research capabilities and eloquence in expression.

Vriddhi,volume III is continuously supported and motivated by executive editors Dr. Jatin Trivedi, Associate Professor & Mr. Meraj Inamdar, Faculty Member at NISM, who help us to complete it. .

Vriddhi strives to ensure a speedy and efficient review process. The entire pursuit of motivating the students, editing, screening of articles, reviewing and compiling the magazine has been moved by the Student Editorial Board. I would like to extend my heartfelt thanks to all the student editors; viz:- Rachit Munjal, Sarthak Singhdeo, Shreevidya, Hirdayansha, Piyush, Abhilasha, Sameer, Karan, Mayank, Mukesh and Anup.

We have followed a system of two rounds of internal reviews by the Student Editorial Board. The two pronged review mechanism entails (i) plagiarism detection/proof of originality and (ii) content review stage. Provisionally approved by the student editors, the final acceptance or rejection of any manuscript is subject to the review by the Chief Editorial Board.

We, as editorial board members, arranged a dynamic discussion - Vriddhi's team and NISM students with the top Editors of the country on 22.10.21. I appreciate the wisdom shared by the speakers at the interaction: Mr Vikas Dhoot, Economics Editor at The Hindu; Mr Roshun Povaiah, Editor(Digital) at Financial Express; and; Mr. Santanu Bose, Senior Editor at The Economic Times Prime. It was instrumental in enlightening the candidates about career prospects in financial writing and business journalism.

With the new year of 2022 unfolding, we wish to bring to our readers wider perspectives and offer the writers better opportunities. Carrying forward our traditions, we here at Vriddhi strive to bring to you the best of business and policies.

Here's to putting the best pieces forward. Bonne Lecture!

Trisha Shreyashi
B.A. LL.B.

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Numbers tell us the story

-Sadhika Nimbutkar

Every number in the Profit & Loss statements and Balance Sheet has something to reveal about the company and this all together tells us a story behind the Company's position. All the data combined to give us a holistic picture of a company.

An equity research analyst helps to build a bridge between known and unknown facts.

Individuals sometimes while reading an investor presentation report might get driven by unnecessary data provided by the company to show how good the company is. But an analyst should not get trapped by this anchoring biasedness.

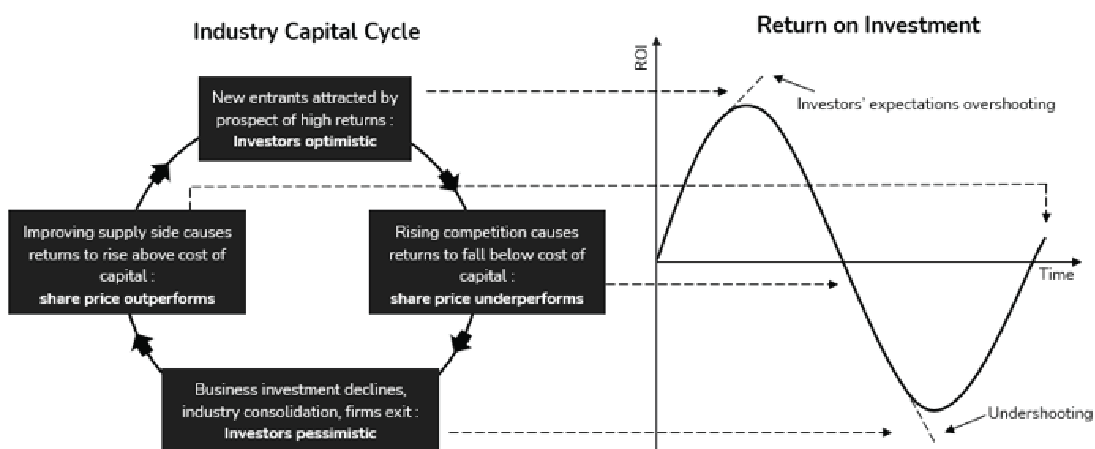
There are many things available on various websites and everything is a little different from the other. Often, one feels like why is there a difference between the numbers of the balance sheet or Profit and loss account statement of the same company on different websites. The reason behind this is that everyone has a different lookout for the same numbers.

Let's take an example of the negative cash conversion cycle and its analysis. Some analysts say that it is good to have a negative cash conversion cycle because this indicates that the company is having cash with itself before paying to its creditors which indicates that the company can generate revenue on that money before paying to its creditors. But few of them will say that the negative cash conversion cycle is not good for a company that is defaulting. It is bad for the company because they are unable to meet its liabilities.

Here both the point of view are correct. Now you must be thinking that how is this possible. See Negative cash conversion cycle is good for the cash-rich company but on the other side, it is not good for a defaulting company. Here what matters is the rationale behind the reason.

The work of an analyst is to dig into those numbers and come up with a holistic picture of a company. But before getting directly into the numbers one should understand the Industry cycle.

Industry cycle



From the above picture if we see on the right side there is a graph. At the starting point, the upward of the curve is the point one should buy the shares of that company. As the upward curve indicates that the company is generating consistent profits and is having good capital allocation along with this the share prices start to outperform. The curve starts the downtrend as new companies come into the picture by seeing the profits of the existing companies. This leads to a rise in competition. Further, when the curves go more down the rising competition causes returns to fall below the cost of capital. This is a point where share prices start to underperform. In the end, the industry consolidates and some firms may exit at this point, after that the direction of the curve changes. This is the point where you will start finding small-cap companies (i.e. Multi bagger companies). The one who can take risks can invest at this turning point.

Along with understanding the industry, one should also know about the rules and regulations of the applicable sector for the company.

While analyzing the company for different period start with differentiating the years into
1) Bad year.
2) Good year
3) Moderate year.

This is necessary because if it is a bad year it will be applicable for every company (like the year 2008 when the markets crashed it was a bad year for all companies) and if it's a good year it will apply to every company (Like in the year 2019 when Finance Minister cut the tax rate to 25%, it was good news for every company). By doing the thing we come to know about how company withstand the bad year and survived while in a good year how much it was helpful to increase the profits.

To know the trend is also important

For layman Prepaid expenses, which occurs in the Balance sheet, he might consider this point a good point of a company considering that the company is paying some of their suppliers due beforehand to get the service in the future. But as an analyst, we need to see the trend of the prepaid expenses paid over the years. As the trend will show us whether the company is having bargaining power or the suppliers. For example, if the company's prepaid expenses period is increasing year on year that means the power is in the hand of the suppliers because the supplier is asking for the money in the first place. Therefore, we should look for a decreasing trend of the prepaid expenses. But there are different views on this too. Like sometimes there might be some difficult situation where the company is trying to support their suppliers by paying in advance. Therefore, to the trend and situation is very important.

One should read the Management Discussion Analysis and try to find that whether whatever they are told are they fulfilling that. If they are doing what they are saying before the time, then it's a green signal. Since the company is proving their self by accomplishing its commitments. If they are fulfilling at the time stipulated time, then it's an orange signal and when it fails to fulfill what it says then it's a red signal.

How to go about research-
Prepare a sheet of data

1) Read the Wikipedia
2) Then go to the company's website and read about the company's products.
3) Read: About the company data
4) Look for Corporate governance
5) Then read the Investor presentation
6) And after reading all this one should go for annual report reading analyzing the numbers.

One should find the reason behind the change in the number to rightly understand the story behind it. Prepare a detailed (with the bifurcation) Balance Sheet, Profit & Loss Statement, and Cash Flow statement which a layman can also understand. It is necessary to understand the heads in the balance sheet and Profit and loss statement.
While analyzing the statement divides the points into two

1) Red flag: which has negative points of the company.
2) Green flag: which has positive points of the company.
Red flags (examples)
• A contract between the company and a political party.
• If the miscellaneous expenses are more than 1% of the sales then look for the breakup.
• If the processing charges are less
• If a company is paying more of prepaid expenses and is increasing year on year.
• Avoid cyclical businesses.

Green Flag (examples)
• If ROE is on and above 15%
• Company with a good capital allocation.
• Company with the growing trend in Revenue.

Many ratios are important to look into while analyzing the company. A few of them are as follows:
• Cash conversion cycle
• Cash flow from operation (CFO) as a percentage of EBITDA
• Growth in Receivables v/s Growth in the Revenue.
• Contingent Liability as a percentage of the net worth.
• Depreciation expense as a percentage of Total fixed Asset.
• CAPEX as a percentage of the Cash flow from operations.
• Standard deviation in Revenue, Earnings, and Cash flow from operation.
• Other Income as a percentage of the Total revenue.
• Tax expenses as a percentage of the Revenues.
• Free cash flow growth and its trend.

After doing all this we should not forget to compare the company with another competitor. Also analyze if there is a merger, demerger, or an acquisition that took place during the period of study. By plotting the figures and reading the statement we will company to know about the journey of the company. Along with that, we can predict the future growth of the company.
One should try to see the hidden meaning behind the numbers and solve the mystery of mismatch if any. Just as done by Sucheta Dalal who is a journalist who brought the 1992 scam into the picture.

Remember numbers are not just numbers they are the ones who tell us the story.

Implications of a shortened settlement cycle for Institutional and Retail investors

- Anant Bajpai

The Rolling Settlement is the process of settling trades on a stock exchange was to be accounted for and settled on T i.e. trade day plus 'X' trading days, where 'X' could be 1,2,3,4 or 5 days. The Authors of this article endeavor to explain the Rolling settlement process in India. The author in this article have tried to analyze the journey of the rolling settlement process in India. The genesis of rolling settlement in India may be traced back to the SEBI's introduction of Optional rolling settlement for Demat scrips in 1998. Through this article, the authors have attempted to explain the concept, government regulations related to the rolling settlement process in India.

Keywords- Rolling Settlement, Stock market, SEBI.

Introduction

The Rolling Settlement is the process of settling trades on a stock exchange was to be accounted for and settled on T i.e. trade day plus "X" trading days, where "X" could be 1,2,3,4 or 5 days. Thus, in brief, it means that if say a T+n, where n is the number of days system of rolling settlement was to be followed, trades accounted for on the T i.e. trade day was to be settled on the nth working day minus the T day. This process is also known as the Compulsory Rolling Settlement (CRS). Initially, the Rolling settlement was introduced in India by Over the Counter Exchange of India (OTCEI).

In stock markets, the settlement cycle refers to the time between the trading date, when an order is filled in the market, and the settlement date when participants exchange cash for securities or shares. Currently, India is following T+2 settlement for example, If a person buys shares in any company today on the BSE or NSE, the shares will be transferred to his DMAT account in trade + 2 days (T+2). After that, he has the option to sell or keep the shares. Investors selling shares, on the other hand, will get monies in their accounts within T+48 hours.

Evolution of Rolling Settlements in India

The genesis of rolling settlement in India may be traced back to the SEBI's introduction of Optional rolling settlement for dematscrips in 1998. The term "Demat scrips" relates to electronic accounting. On the January, 15th 1998, the T+5 rolling settlement cycle was introduced for the first time for demat shares. As dematerialization grew in popularity, the NSE added the ability to settle trades in demat assets on a rolling basis. SEBI made rolling settlement mandatory for trading in 10 scrips in January 2000, based on the criterion of being on the required demat list and having a daily turnover of Rs.1 crore or more. In February 2000, SEBI conducted a review of the rolling settlement process. Consequent to the review, SEBI added 156 scrips to the rolling settlement list. From March 21, 2000, all scrips traded on any of the exchanges and had signed agreements with both depositories were included in the

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[1] *Bombay Stock Exchange.FAQs on Rolling Settlements.https://www.bseindia.com/static/ investors/FAQRolling.aspx-#!#1*

mandatory rolling settlement. Following the declaration on March 13, 2001, by the Finance Minister that the rolling settlement will be extended to the BSE-200 list, from July 2, 2001, all exchanges would trade solely in the compulsory rolling settlement. Furthermore, starting on December 31, 2001, SEBI ordered a rolling settlement for the outstanding securities. Since July 2001, SEBI has implemented a T+5 rolling settlement system in the equities market. Following that, on April 1, 2002, the settlement cycle was shortened to T+3. After gaining experience with T+3 rolling settlement, it was decided to reduce the settlement cycle to T+2, lowering market risk and protecting investors' interests. As a result, SEBI, as a step towards the easy flow of funds and securities, introduced T+2 rolling settlement in Indian equity market from the April, 1st 2003.

Now in 2021, SEBI has shortened the rolling settlement cycle for stock trading on an optional basis as it looks to streamline the process. The Securities and Exchange Board of India said in a notification on Tuesday that exchanges can offer T+1 or the already existing T+2 rolling settlement cycles from Jan. 1, 2022 .The circular states as "Stock exchanges, clearing corporations and depositories are directed to take necessary steps to put in place proper systems and procedures for the smooth introduction of T+1 settlement cycle on an optional basis, including necessary amendments to the relevant bye-laws, rules, and regulations," [4].

FPI issues

The T+1 settlement cycle has come under criticism from foreign portfolio investors due to several factors.

Pre-Trade funding:

The requirement of pre-trade funding to execute settlements in a shortened time frame. Currently, the T+2 system is conducive to investors in the UK and US since trade settlement concerning such investors is a multi-layered process involving multiple parties such as clearinghouses, custodians, tax consultants, fund managers, exchanges etc all of which is complex and time-consuming especially because there is a time zone difference. Another complication arises from the fact that global institutional investors typically have global and local custodians. Global custodians can be located across multiple jurisdictions with different time zones. Under the current cycle , the global custodian releases funds to the local custodian once the trade has been confirmed by the local custodian. As explained above, fund transfer takes some time because of the long chain of stakeholders involved and the difference in time zones. However, under the T+1 system, such investors will have to transfer the funds from the global custodian to the local custodian even before the trade has been booked as the follow up processes will not be completed in the limited settlement window. This has been the case with

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[3] *Bhardwaj, Sameer. (2021, September 07). SEBI Introduces T+1 Settlement Cycle For Stocks On Optional Basis.https://www.bloombergquint.com/markets/sebi-introduces-t1-settlement-cycle-for-stocks-on-optional-basis*

[4] *Securities Exchange Board of India. (2021, September 07). Introduction of T+1 rolling settlement on an optional basis.https://www.sebi.gov.in/legal/circulars/sep-2021/introduction-of-t-1-rolling-settlement-on-an-optional-basis_52462.html*

[5] *Economic Times. (2021, August 30). T+1 settlement proposal.https://economictimes.indiatimes.com/markets/stocks/news/anmi-expresses-concern-over-t1-settlement-proposal/articleshow/85763045.cms?from=mdr*

China which is the only other big market to operate on a T+1 basis. As pointed out by Asia Securities Industry and Financial Markets Association (ASIFMA) in its letter to SEBI, pre-trade funding reduces the attractiveness of a market for global institutional investors as they will be required to be ready with the funds and the shares on the trade day itself .

funding reduces the attractiveness of a market for global institutional investors as they will be required to be ready with the funds and the shares on the trade day itself .

No margin for errors:

Adoption of a T+1 cycle will also leave less time to correct discrepancies in transactions which are typically investigated and corrected on the day after the trade is booked . In a T+1 scenario, this will have to be compressed and the process is likely to be very difficult to manage because of differences in time zones. The problem compounds if regional holidays and different working hours are also taken into account. These problems have been encountered in the past by Taiwan which introduced T+1 settlement but reverted to T+2 soon thereafter because of significant challenges posed to institutional investors from an operational standpoint .

Increased Risk of trade matching failure:

It has also been pointed out that the move to a T+1 settlement cycle will significantly increase the risk of trade matching failure for high value trades. This will increase the cost of trading and the associated risks which will be ultimately passed down to domestic brokers .

Challenges with respect to Dual settlement cycle:

The move by SEBI to install a dual settlement cycle for foreign and domestic investors also requires clarity from an operational perspective. Under this, foreign investors will operate on a T+2 cycle, whereas domestic players will be required to operate on a T+1 basis. The move will assuage some of the concerns raised by FPIs as discussed earlier, but it must be noted that the dual settlement cycle does not exist anywhere in the world. Potential conflicts could arise if some exchanges adopt a T+1 cycle and others adopt a T+2 cycle particularly if the same stock trades on both cycles. This would have implications on the determination of the price of the stock as well as the mismatch of settlements across exchanges operating on a dual settlement cycle. Such and other issues are required to be thoroughly appreciated and worked upon before the new system kicks in.

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[4] *Coutinho, Ashley. (2021, August 26). T+1 will make India a pre-funding market for FPIs.https://www.business-standard.com/article/markets/t-1-will-make-india-a-pre-funding-market-for-fpis-says-asifma-121082600075_1.html*

[5] *Penna,Anil. (2021, September 21). What the move to a shorter settlement for stocks means. https://www.moneycontrol.com/news/business/markets/explained-what-the-move-to-a-shorter-settlement-for-stocks-means-7442571.html*

[6] *Coutinho, Ashley. (2021, August 26). T+1 will make India a pre-funding market for FPIs. https://www.business-standard.com/article/markets/t-1-will-make-india-a-pre-funding-market-for-fpis-says-asifma-121082600075_1.html*

[7] *Penna, Anil. (2021, September 21). What the move to a shorter settlement for stocks means. https://www.moneycontrol.com/news/business/markets/explained-what-the-move-to-a-shorter-settlement-for-stocks-means-7442571.html*

Benefits of a shortened settlement cycle

A shortened settlement cycle has many advantages. The primary advantage of a shorter settlement cycle is the increase in liquidity achieved due to higher turnover of capital which instead of being blocked for 2 days under the current system can be freed up on the next day of the trade and rapidly redeployed elsewhere. This has the potential to offer significant systemic advantages as it will increase the capital turnover of all market players be it institutional or retail investors. Availability of free capital is also beneficial from an insurance perspective as a significant amount of capital that is required as collateral for guaranteeing transactions can also be freed up once the trade gets settled. From the risk management perspective, a shorter settlement cycle makes sense since the shorter the time frame, the lesser is the probability of any significant change in the solvency of counterparties which can significantly reduce the risk of default for trades between such counterparties.

A secondary advantage of a shortened settlement cycle will be the elimination of most manual processes except the most critical ones. Such processes will have to be automated to function within a shorter time frame. This is likely to reduce discrepancies arising from human errors; while saving significantly on operational costs.

Conclusion:

From the above discussion, it can be concluded that there are significant upsides and downsides to a shorter settlement cycle. From the perspective of retail investors, a shorter settlement cycle is preferable while for institutional investors it could potentially result in major operational challenges. The requirement is to balance the needs of different interest groups by a consultative process wherein all competing interests can be better understood and resolved. Additionally, it would be helpful to look at the experiences of other markets where T+1 has been deployed in the past viz. China and Taiwan. Specifically, market participants in India should look at the reasons behind the market regulator of Taiwan reverting back to a T+2 settlement after introducing T+1. While situations may not exactly be the same for capital markets across jurisdictions, there are certain issues that would affect the capital markets similarly. Hence, it would be an instructive exercise for Indian stakeholders to learn from such experiences. This could help in the development of pilot programs that could be deployed on a small scale. With incremental improvements, a shorter settlement cycle introduced in a phased manner would be best poised to serve the interests of all stakeholders.

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[10] *Securities and exchange Board of India. (2013, April 18). Discussion Paper on Risk Management-Safer Markets for Investors.https://www.sebi.gov.in/reports/reports/apr-2013/discussion-paper-on-risk-management-safer-markets-for-investors_24640.htmless/markets/explained-what-the-move-to-a-shorter-settlement-for-stocks-means-7442571.html*

Demystifying Housing Loan

-Sadhika Nimbutkar

For those born between the 1950s and the mid-1980s, owning a home was typically seen as a status symbol, financial security, and a necessity. Not only was owning a home considered to be a major milestone in life but renting a home is considered disparaging. On the contrary, people born in the late 80s and 90s do not consider buying a home as a sense of accomplishment. They would rather travel to 50 countries before they turn 30, have three jobs, or own their business rather than buy a home. This has led to a paradigm shift in the Indian real estate industry.

The Indian population was 1.366 billion in 2019 out of which the Female population is 48.03% and the Male population is 51.97% and now the total Indian population in 2020 has gone up to 138.5 billion. Approximately 46.5% of the Indian population is married.

In India buying a house is an emotional decision and is a symbol of safety and security. According to the RBI report, Indians are spending a significant part of their income to pay the home loan EMIs and by taking large amounts of loans as compared to their income to buy a property.

In India, the average age of a first-time homebuyer is about 30-38 years and two-thirds of the population is below 35 years. Usually, people in India buy a house that is financed by a bank. The loan tenure for the housing loan ranges from 20 to 30 years which is a very huge period. This is because the average salary in India is approximately ₹4,00,000 per year. So, the affordability of people buying a house is low.

So, there are two options left with the people: either they can buy the house or rent it.

To buy or to rent is the decision which depends on the market condition. But if a person wishes to stay for a long period then buying is a better option, while for a short period generally renting is better.

Factors that influence Rent decision are as follows-

1. Unstable income/Job- When you have an unstable income then you should not go for buying the house.
2. Flexibility- When your job demands flexibility in location then renting is the best decision.
3. Lower risk – When you take a home on rent transaction cost is low and you need to pay less compared to in case of buying the house.

Factors that influence buying decision are as follows-

1. Decision-maker- If you buy a house you are the decision-maker of your house and there is no tension to pay rent and other obligations of interiors and other decisions. No need for frequent shifting.
2. Security and comfort- once you buy the house it becomes financial security and helps in the critical situation.
3. Long term investment – real estate is a long-term investment as it is an illiquid asset.

For a person who wishes to buy a home, he needs to give security against a loan. Also, he has to pay Equated Monthly Instalments (EMIs) in return for a loan. Equated Monthly Instalments (EMIs) comprises both principal and interest. Repayment by way of EMI starts from the month following the month in which you take full disbursement.

People usually think that if a person has brought a house on a loan, he/she will be the only owner of the house. But the situation is a little different. The person is not the sole owner of the house. The ownership of the house is shared between the person and the bank.

Let's say if a person pays 20% of the house and the rest 80% is financed by the bank. Then the person is the owner of only 20% and the ownership goes on increasing as the EMI gets paid. There is a risk involved here. If somehow a person fails to pay EMI for several months, then the bank has the right to sell the house and recover the loan amount. Therefore, it becomes crucial to repay the loan before or within the tenure.

Currently, interest rates for home loans in India range from 6.7% to 8.9%. Usually, People take a housing loan for approximately 20 to 30 years and end up paying a significant amount of their income on the interest payment. But a person should try to reduce the EMI tenure as much as he can. For example, the loan tenure is of 20 years the person should try to complete the loan in approximately 10 to 15 years only.

How to pay as little interest as possible on your home loans?

1. Pay more as a down payment.

For example: If you are planning to buy a house costing rupee 60,00,000, in which case the bank usually finances 75-85% of the total amount. This amounts to rupees of approximately 50,00,000. The tenure for the loan is 30 years and the interest charged is 10%. Then one should not directly avail of what the bank is ready to offer rather he should take less loan from the bank. So, that the interest charged on that will be less as the interest is being charged on the principal amount.

2. Making pre-payment of loan

Pre-payment of loan means making additional payments to the regular EMI's. You can make payment in addition to the EMI's and this way you can lower the outstanding principal amount. Therefore, the new interest amount will be charged on the new principle which is reduced. Thereby reducing the interest.

For example: for the same year that we took above and if we pay lumpsum 2,00,000 after 5 years. Therefore, the principal amount will reduce by 2,00,000 and the interest will be charged on that new principal amount. In this way, the interest amount will be reduced and the tenure also.

According to RBI, banks are not allowed to charge prepayment penalties. But some banks may charge prepayment penalties on fixed-rate loans. But these charges are approximately ranging from 1 to 3% which is very less.

3. Loan tenure.

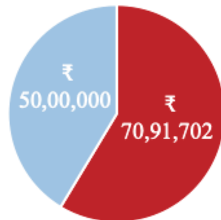
Usually, people look for a low EMI payment. But they fail to understand that if they reduce the EMI, the tenure increases which in turn increases the interest.
For example-

CASE 1:

Loan Amount	50,00,000
Interest Rate	9.00%
Loan Tenure	25

Loan Payment Break-Up

■ Total Interest Payable ■ Principal Amount



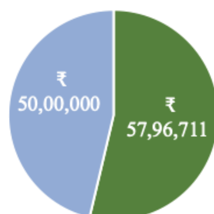
CASE 1:

Loan Amount	50,00,000
Interest Rate	9.00%
Loan Tenure	20

EMI	44,986
Total Interest Payable	57,96,711
Principal Amount	50,00,000
Total Payment	1,07,96,711

Loan Payment Break-Up

■ Total Interest Payable ■ Principal Amount



In both cases, the loan amount is the same but the loan tenure is different. In case 1 we see that the loan tenure is more and therefore the total interest payable is high. While in the second case the loan tenure is less than case 1, with this we see that the total loan amount payable is also less as compared to case 1.

The interest paid in case 1 is much higher than the interest paid in case 2. If a person takes a loan as shown in case 2, he will save approximately 13 lacs on interest.

Therefore, as the tenure decreases the interest also decreases.

There is a thumb rule for calculating the maximum EMI that a person can pay.

The EMI should not exceed 35% of the monthly salary.

4. Invest.

The interest received from this investment can be used to pay your loan and, in this way, we can make the housing loan interest free. A SIP of 0.16% of the amount of home loan should be invested in the Fund. In this way, one could recover the interest amount.

For example- If a person takes 40,00,000 loan for 20 years at a 9% interest rate. Then the EMI would be 39,989. By the end of the tenure, you would end up paying 86,37,000. The extra 47,37,000 is the interest.

If you invest in the stock market let's say an ETF for 20 years, it has a history that it gives 12% to 15% return and then you can prepay your loan by the interest earned from this investment.

For example, if you make a SIP of 6,500 at an interest rate of 12% for every month for 20 years. Then your total investment value at the end of the 20th year will become 63,31,000 and if you deduct your investment of 15,36,000 from that, you would be left with an interest of 47,95,000. So, the interest received from this investment will be enough to pay your loan interest.

5. Tax exemption

Of the total annual EMIs, the principal component gets tax benefits under section 80C of the income tax act even the partial prepayment amount qualifies for the same but within the overall limit of 1.5 lakhs. Further if a self-occupied property then the interest payable is deductible up to rupees 2,00,000 per year.

If a person wants to go for rent, he should consider the following two things-

1. **Rent ratio-** If the property value is equal to or less than 20 times the annual rent then it's usually better to buy a house.

For example: if the annual rent is 20,000 per month then it will be 2,00,000 per year. If a person wishes to stay for 20 or more years then the total rent amount will become 40,00,000. Therefore, if the house costs 40,00,000 or less then the rent ratio is favorable for buying, and if not, the recommendation is for rent. The thumb rule is – a yield of anything above 5% is considered good.

2. **Rental yield –** It is a measure of how much cash your house or asset produces each year as a percentage of its value. The thumb rule is – a yield of anything above 5% is considered good.

Assume you have a house of RS. 80,00,000 and you rent it out at 25,000 per month. Then your annual income from that will be 3,00,000 per year.

Rental yield is 3,00,000/80,00,000 * 100 = 3.75% if you consider maintenance, cost property tax, etc your actual yield will be less than 3%.

The best place to buy a house in India is in metro cities. As the value of the house always gets appreciated in metro cities. One should for a property that has the potential to appreciate next year.

The real estate sector is the second largest employer after agriculture and experts have stated that the sector is poised to grow around 20 percent over the next decade. The real estate sector is one of the most globally recognized sectors. It comprises four sub-sectors - housing, retail, hospitality, and commercial. The growth of this sector is well complemented by the growth in the corporate environment and the demand for office space as well as urban and semi-urban accommodations. The construction industry ranks third among the 14 major sectors in terms of direct, indirect, and induced effects in all sectors of the economy. The growth rate of the real estate industry across India was estimated to be 11.2 percent from the fiscal year 2015 to 2020.

SPACS: Comprehending The Concept-Opportunity

- Deepank Anand

A listed corporation that does nothing, have no operations, no revenues, no profits, no employees but is still trusted by hundreds of investors. But why are these hollow companies getting investments? These Companies are called Special Purpose Acquisition Company (SPAC) which are raised and listed for the sole reason to acquire a private firm. The article shall discuss in detail what is SPAC and the process involved in it by introducing the idea of "RIA" to readers which is minted by the author, which stands for Raising Money, Identification and Acquisition, to understand the working of a SPAC. The article then also apprises the reader as to why SPAC is being preferred over traditional IPOs by small and penny companies to enter the stock market. Article discusses that how current Indian Legal Framework is hindering the progress of SPAC in India. IFSC Regulations pertaining to SPACs are also deliberated in the article.

Keywords: SPAC IPOs, Reverse Merger, Blank – cheque Companies, IFSC Regulations, Gift City
Author's biographical information.

CHAPTER 1, Introduction

The world around us provides new opportunities every second to mint profits. Cryptos, REITS, ETFS, Gold Bonds, ADRs are some of the modern instruments that is being widely used by Indians to fill up their pocket with returns. Though, many experts says that these modern instruments owe their popular traits to Bandwagon effect . But, the breakthrough for profits in India have always been equities and recently in IPOs. But what would happen if a person or a group comes up with an IPO of a firm which practically does NOTHING? No profits, no Revenues, no operations, no employees but have two bags, one filed with promising hopes for the future and the other bag is filled with the funds of the prospective shareholder. Such unbelievable wonder concept can only be viable and practical in the miraculous securities markets.

The concept if simply stated, includes a person or group of people (called sponsors) that comes up with an IPO and tells the public that the funds are being raised to acquire a private company (Company name is not disclosed in prospectus) in a certain industry and the investors that would fund the acquisition would be given shares of the acquired entity. The IPO is carried through a company cum vehicle to accumulate funds which is known as Special Purpose Acquisition Company (SPAC). The SPAC is driven by the sponsors' expertise in the field of investment, banking, M&A, etc. The singular motive behind taking such pain in raising and acquiring a company is producing profits by merging with a corporation . Some call the SPAC a "gamble", some call it a "measured venture", but the label doesn't matter if it makes money for the investors. The whole model of SPAC is established on the pillars of effectual utilisation of shareholders' funds and the experts' competence to negotiate an acquisition deal with the

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YEAR	SPACs [14]	IPOs [15]
2020	248	436
2021	588	1017

Target company.

The biggest investor minds says that the negotiating an acquisition deal is worth future trillions. Peter Drucker who laid the foundation of modern business corporation once said "I will tell you a secret: Deal-making beats working”. The Conception of SPAC was evolved in America in 1980’s which was further improvised by the American Securities and Exchange Commission Rules and Regulations in early 2000s. The concept and the history would be discussed in detail in the coming chapters.

“The hottest thing in finance is four letters long... It’s called a SPAC” . America has seen the largest volume of SPAC in the 2020 and 2021. If a comparison drawn for the issuance of IPOs and SPACs in 2020 and 2021 in United States of America, then it shall look like this:

But why the world is talking about SPAC all of a sudden? Why the world is shifting away from the traditional procedure of going public by the way of IPOs? Why do we even need SPAC? This Article shall endeavour to answer the reader with alike questions. Moreover, this Article shall help the reader understand the concept of SPAC, the practical blockades Indian laws poses on the introduction of this concept in India and the SPAC model in the Gujarat International Finance Tec-City (GIFT City) through the International Financial Services Centres Authority Regulations.

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[11] *Bandwagon effect. (24 November 2020). In Wikipedia. https://en.wikipedia.org/wiki/Bandwagon_effect.*

[12] *Fordham Business. (2012).Special Purpose Acquisition Companies. Fordham Business Student Research Journal: Vol. 2 : Issue 1 ,Article 3. https://fordham.bepress.com/bsrj/vol2/iss1/3.*

[13] *Ramkumar, A & Farrell, M. (2021, Jan 23-24). When SPACs Attack! A New Force Is Invading Wall Street. WALL ST. J. https://www.wsj.com/articles/when-spacs-attack-a-new-force-is-invading-wall-street-11611378007.*

[14] *SPAC Insider.SPAC Statistics.www.spacinsider.com. https://spacinsider.com/stats/*

Stock Analysis.IPO Statistics.www.stockanalysis.com.https://stockanalysis.com/ipos/statistics/

CHAPTER 2, Understanding the SPACtacular Concept

2.1 Background and the Historical Evolution

This chapter shall particularly deal with the SPAC and its workings in the US regime. The concept might be new to the Indian minds but the roots of SPACs are deep in the American spheres since 1980s where it went famous in the sectors of technology, healthcare and media. If the historical pages of SPACs are tracked it would name David Nussbaum as one of the founding fathers of the SPACs who belonged to the investment bank GKN Securities. But as soon SPAC was introduced to the markets it was associated with frauds and penny stocks which fetched it a tainted image amongst the prime investors, which brought failure to SPACs as an investment instrument. The predecessor of what was prevailed in the market in 90's were called "blind pools". "SPACs turned hot for brief periods in the 90s, then again in the 2000s, only to fade with market crashes or a surge in traditional IPOs. New laws and regulations helped booster their reputation…"

In 2003, the SPAC grew its reputation but saw its popularity touching skies when the capital inflow was drastically increased from 2014 where the capital raised was 1.8 billion US dollars through 12 SPACS to 2019 where the SPAC raised 13.6 billion dollars through 59 SPACs. But the Major breakthrough experienced by the SPACs in the hard times of Covid where most of the small private companies were financially exhausted and could have only survived by acquisition and infusion of funds. Moreover, Fed played a greater role in injecting liquidity in the market which led to a great revolution of putting funds in the SPAC. In 2020 the funds raised through 248 SPACs calculated to be 83.3 Billion USD whereas 2021 showed a robust investment of 157.5 Billion USD through 588 SPACs . But still the basic risky nature of the SPACs has not change.

2.2 The Basics and the Process behind the SPACs

SPACs are nothing but cash shell companies , filled with funds, whose shares are listed in the stock markets and have no existential element of a company except shareholders and funds. The SPACs are initiated with an idea of acquiring a private firm and minting money by the process. The SPACs are established by initial investors who are called sponsors. The sponsors hold shares in the listed company called "promote". These companies are simply called "Blank Cheque Companies" because the investor basically write down the blank cheques in the name of the sponsors to do whatever they want to do with it. The unique factor of SPAC is that neither the sponsors nor the shareholders know about the company aimed to be acquired before the shares are listed, which means the suspense of target company's name is disclosed only after shares of the SPAC IPO are listed and are publicly traded. In simple terms, shareholders are putting in money with no future and no past but simply on the expectations of "perfect acquisition". Is it a gamble? The answer would be subjective to investor's risk appetite. The investors do not invest money in the shares of the target company but they put in money on the sponsors' financial intelligence, investment expertise, influential and communication skills and negotiating calibre. A Sponsor also have a brilliant past record in getting returns on the investments.

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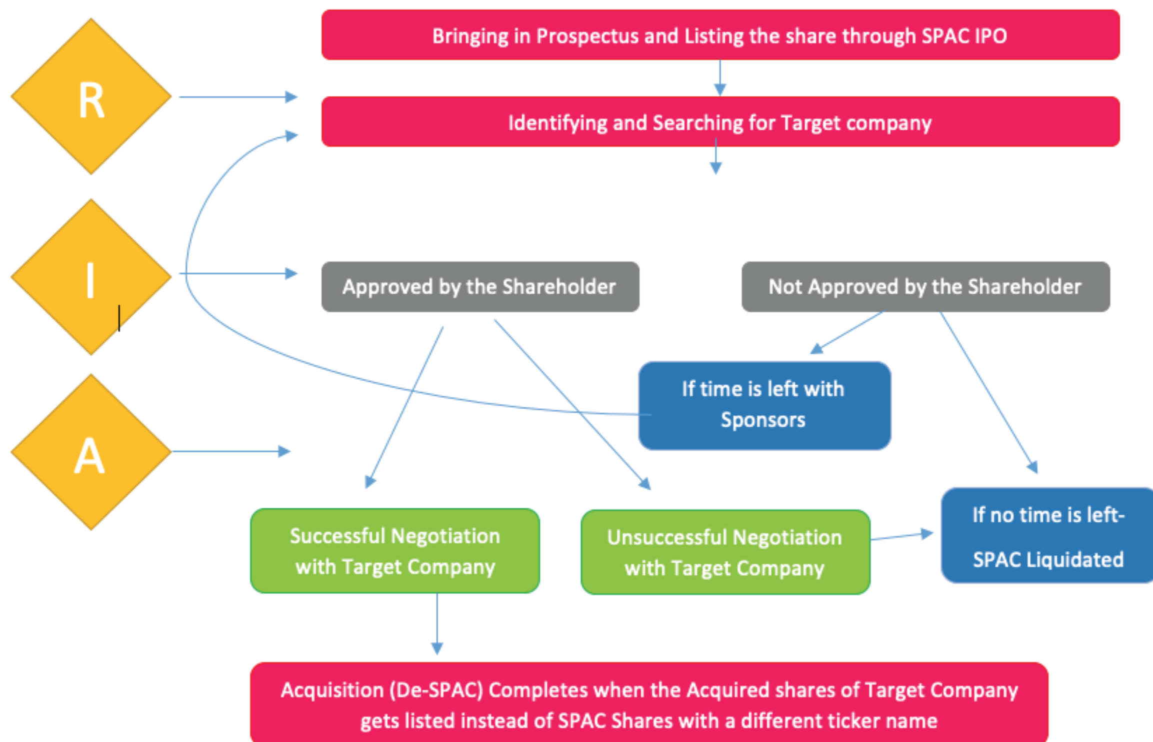
[16] *Forbes, Trust me, www.Forbes.com, https://www.forbes.com/forbes/2006/0508/054.html?sh=524c37281e37*

[17] *Ramkumar, A & Farrell, M. (2021, Jan 23-24). When SPACs Attack! A New Force Is Invading Wall Street. WALL ST. J., https://www.wsj.com/articles/when-spacs-attack-a-new-force-is-invading-wall-street-11611378007*

The SPAC are independent of the sentiments of the markets . But it is generally observed that the number of IPOs on one hand are furiously high in a bull run whereas the number of SPACs are High when there is huge volatility in the market and a fear or bearish sentiment is prevailing in the market. The inherent problem with IPOs are they are time consuming whereas the SPAC are already listed before the merger and hence are less time consuming to be listed.

Generally, it is observed that this technique of reverse merger or the backdoor entry to public market is done by the small and penny stocks who are not able to enter the securities market and raise funds through a traditional IPO . There may be pool of reasons that a particular company cannot invite tenders for the IPO, litigations, losses, lack of compliances, falling short minimum threshold limits for listing, etc can be some of the various reasons.

- SPAC AND De-SPAC PROCESS



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[18] *SPAC Insider.SPAC Statistics.www.spacinsider.com. https://spacinsider.com/stats/*

[19] *Feldman, D.N. (2010). Reverse Mergers: And Other Alternatives to Traditional IPOs. Bloomberg Press, New York.*

[20] *Strauss, J. (2021, March 8). Special Purpose Acquisition Companies— A Blank Check for Success. Wilmington Trust-Member of the M&T Family. https://library.wilmingtontrust.com/wilmington- wire/special-purpose-acquisition-companies-investment-or-spaculation.*

[21] *Gleason, K.C., Rosenthal, L., Wiggins III, R.A., (2005). Backing into being public: an exploratory analysis of reverse takeovers. J. Corp. Finance 12, 54–79.*

[22] *Feldman, D.N. (2009) Reverse Mergers: And Other Alternatives to Traditional IPOs. (2nd edition) Bloomberg Press, New York.*

shares are listed, which means the suspense of target company's name is disclosed only after shares of the SPAC IPO are listed and are publicly traded. In simple terms, shareholders are putting in money with no future and no past but simply on the expectations of "perfect acquisition". Is it a gamble? The answer would be subjective to investor's risk appetite. The investors do not invest money in the shares of the target company but they put in money on the sponsors' financial intelligence, investment expertise, influential and communication skills and negotiating calibre. A Sponsor also have a brilliant past record in getting returns on the investments.

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- SPAC AND De-SPAC PROCESS

The process can be easily understood by the concept of "RIA" which stands for Raising Money, Identification and Acquisition.

1. R- RAISING MONEY

This is the most important step of SPAC, where the money is raised by the Sponsors through a SPAC IPO. The process of SPAC IPO will be initiated by issuing a prospectus

- Prospectus

The prospectus would be a unique but hollow as nothing would be provided. Only the details of the sponsors, promote, the shares/units offered in the SPACs to the shareholders and the funds being raised would be stated in the prospectus and nothing about the target company would be stated. The prospectus may mention the industry in which (In certain SPACs, promoter might mention the Target Company name, but it would lead to adherence to more regulation which increases the time of acquisition).

- Important aspects involved in (R)aising money

Each share is worth 6$ to 10$. The investor would get a share/unit and one or two warrants as per the terms of Contracts. The warrants give the right to the shareholders to buy the stocks in the open market at a later stage at premium of 10-15% from the issue price.

The SPACs Founder or the Sponsors do not get salary but are compensated for their tedious

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[23] *Term minted by the Author of Research Paper.*

[24] *Lakicevic, M., Shachmurove, Y., Vulanovic, M., (2014). Institutional changes of specified purpose acquisition companies (SPACs). N. Am. J. Econ. Finance.*

work of raising fund, identifying and acquiring the target company by initial allotment of shares of the SPAC which sums up to 20% of the post – SPAC IPO, shares which is called the "management allocation". These shares are given to the sponsors against a very nominal fee of 25,000 USD and are called promote. Founder would not get pro-rata shares in the trust. The Promoter generally has to hold up these shares under a lockin period of 2-3 years depending upon the stock exchanges regulation and the jurisdictions.

- Listing of Shares

The next step involved is of listing of the SPAC shares for which the investor has pitched in money. Once the shares are listed in the market the shares are easily tradable. The warrants and the shares are listed and traded separately in the market. But the shares and the proceeds from IPO process is not kept in the hands of sponsors but are kept into an escrow account separately as per Rule 419 in a trust. Generally, the money collected from the IPO process is invested in the Governmental securities for short term which will help the shareholders earn an extra income over the funds pitched in and the cost like underwriter's fee would be given by this extra income.

2. I- IDENTIFICATION of the Target Company

The next step in the SPAC process is the identification of the Target company which is to be acquired. The step just does not contain identification but includes a 2-sided facet which includes identification and announcement. The timeline through which the promoter has to finalise the deal i.e., identification, announcement and acquisition is generally 24 months calculated from the listing date.

"It could be the case that SPAC sponsors identify promising targets thanks to their extensive knowledge of the industry, professional experience and valuable business networks despite the fact that the selected firms have a poor financial profile at the time of the acquisition" . Usually, the acquisition is done through a rigorous screening process which focusses into particular industry or region but there is no straight jacket formula for selection and the selection largely depends upon the expertise of the Sponsors.

- Announcement and Approval

Once the firm is identified by the sponsors, it is announced to the shareholders of the SPAC. But mere Announcement is not sufficient. The Sponsors have to take approvals from the shareholders. If the shareholders of SPAC approve the acquisition the promoter may start the further process. The Sponsors in order to ensure that the collective decision of shareholders fall in line with the sponsors' will and decision, the sponsor might try to increase their shareholding percentage of the SPAC to increase their voting rights in the voting by purchasing shares of SPAC in the secondary market which leaves less will and say in the hands of other shareholders. This can also be done by raising more money by way of PIPE – Private Investment in the Public Entity wherein the private players make their investment directly in the SPAC to hold more

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[25] *Rule 419 states that all and any securities that are issued by a blank-check corporation, and the total proceeds collected from that offering of securities must be placed in an escrow account or a separate bank account set up by a registered broker or dealer.*

[26] *Lewellen, S. (2009). SPACs as an Asset Class. SSRN. ttps://papers.ssrn.com/sol3/papers.cfm?abstract_id=1284999.*

[27] *Hale, L.M. 2007. SPAC: a financing tool with something for everyone. J. Corp. Account. Finance 18, 67–74.*

voting rights that are in line with the sponsors. The voting for approval of target is called the proxy statement. At the Approval 2 situation may arise –

i. Approval Given by the shareholders - In a situation where approval is given by the shareholders, then the Sponsors start to work towards the Deal negotiation and the due diligence part with the management of the Target company.
ii. Approval not given by the Shareholder – In this situation the Sponsors start looking for another Target Company. But if there is no time left from the total 24 months the SPAC has to be liquidated and the trust money has to be distributed amongst the shareholders.

- Redemption

When the shareholder believes that the sponsors working does not fall in line of the believes and desires of the shareholder then the shareholder can redeem its shares. The effect of redemption would be such that the shareholder would get the pro-rata share from the trust money in the escrow account. This is a situation where the shareholder is an initial investor from the SPAC IPO. But an investor who invested in the SPAC from the secondary market, even if he opts out of the SPAC by way of redemption, he will get money equal to the pro-rata basis of share which was initially put in by the initial investor against the shares. Example: An investor who bought the shares of the SPAC from the secondary market at 100Rs wants to redeem the shares. The pro-rata share in the trust money is calculated to be at 50Rs per share. Now, if this investor redeems his shares, he would only get 50Rs. per share and not 100Rs.

3. A- ACQUISITION

Once the shareholder has approved the acquisition of the target company, the promoter starts their process to work towards due diligence, regulators' approvals which also have to be completed within the 24 months. This task happens to be the major challenge for the promoter for the reason that most of the deals are lingered upon by the targets company to fetch a better market price or better offer from the acquiring SPAC. The SPAC when acquires the Target company there is a swap of shares from the Target company.

This can be explained in simple terms through an example. "A" (target company) has accepted to give away 60% of its shares to "B" (SPAC). Now, the listed shares of B would be swapped by the acquired shares of A and now shares of A would be listed on the stock exchange with a different ticker name. The trust money (funds minus redemption, cost, fees adding the PIPE) would be transferred to the company A in lieu of acquisition of shares.

One of the pertinent things that has to be highlighted here is that SPAC can invest 100% in a target firm as well. The price, quantum, percentage, rights of the acquisition would be decided in the negotiation of deal. But in any form or manner the SPAC shall not "invest" and become an "investor" in the target company because it would defy the whole purpose and fundamentals of a SPAC. When the entity is merged and acquired shares are traded in place of SPAC shares, then it is said that De-SPAC transaction is completed.

Moreover, one of the pertinent parts in the negotiation is the constitution of the new board of members of the acquired entity. The new board of members generally (and practically should) include the sponsors of the SPAC so that the expertise and the knowledge of the sponsors are inculcated into the operation of the acquired entity. Though, there is no rule warranting a place

in the Board of Directors of the acquired entity for the SPAC sponsors but the shareholders generally expect it and if not done then a price fall is seen in the share price.

- Liquidation of SPAC for failed Acquisition
If the sponsors failed to perform a successful Acquisition within time line of 24 months, then the SPAC shall be liquidated. The liquidation shall result in delisting of the SPAC and the trust money will be distributed amongst shareholders on a pro-rata basis. It is also pertinent to note that the rights under the warrants held by the shareholders expires on the liquidation of the SPAC.

2.3 SPACs vs. IPOs

But why on earth anybody would want to move towards the scheme of SPAC and leave the traditional and time-tested way of raising funds through IPOs. A deep analysis shall be done in the following segment to allow reader compare the advantages and disadvantages of SPAC and traditional IPOs.

Some of the advantages that a SPACs has over the IPOs are:

i. Time Saving and Economical – A traditional IPO takes around 2 years to reach its finality of being listed as humongous paper work is involved and various intermediaries are involved in the process like Investment Banker, under writers, etc who charge their individual fees irrespective of success or failure of the IPO. On the other hand, SPAC IPO does not take much time and can be completed within 6 months and the fees shall be paid from the shareholder trust which is much less than the traditional IPO as not many intermediaries are involved. If the Acquisition fails in SPAC the deferred 50% of the fees of underwriters are need not to be paid by the sponsors.

ii. Strategic Affiliations – SPAC is generally chosen by small firms with bad balance sheets. Generally, it is seen that the acquisition deals let the sponsor to bring their expertise and experience in the target company by holding a seat for the sponsors in the Board of Directors. This is the reason why mostly former CEOs of fortune 500, Venture Capitalist, drive the new acquired entity which is struggling to do business. Hence, SPAC provides a strategic Alliances and Affiliations to small companies and let them be listed on stock exchanges which is not possible in Traditional IPOs.

iii. Price stabilization – Looking at the current scenario, the IPOs all over the world are booming and being listed at an unrealistic price. But such prices are soon corrected in the forward days. The traditional IPOs makes handful rich but million naïve investors lose their capital. This is not in SPACs as the price of listing are pre-determined in the negotiation of the deal. Moreover underpricing is lower for reverse mergers than for IPOs .

But not everything is good about the SPACs. The traditional IPOs are preferred and standing tall

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[28] *Aydogdu, M., Shekhar, C., Torbey, V., 2007. Shell companies as IPO alternatives: an analysis of trading activity around reverse mergers. Appl. Financ. Econ. 17, 1335–1347.*

[29] *Gleason, K.C., Jain, R., Rosenthal, L., 2008. Alternatives for going public: evidence from reverse takeovers, self-underwritten IPOs, and traditional IPOs. J. Financ. Strateg.*

over the SPACs for the following reasons -

i. Reduced Due Diligence and Disclosures – The SPACs have always been associated with penny stock frauds as no detailed disclosures are compulsory for listing of shares on exchanges, which results in providing wrong and misleading information to the investor and making the investor lose its capital. In contrast, there is rigid requirement of due diligence at different layers by different regulators in traditional IPOs.

ii. Extreme Reliance on forward projection but no Guarantee – As we have read above that the SPACs have no identity of itself, no past records, no revenues, etc. rather it just rides on the future projections and promises and there is no guarantee that the future projections would successfully convert into minting of money which makes SPACs a super risky investment. But traditional IPOs have strong fundamental and a base (as there are pre-requirements prescribed by the market regulator to go public) on which investors can rely and take a conscious decision.

iii. Outstanding SPACs and uncertainties – Major issue with SPAC is of identifying the target company and cracking the negotiation deal. If an inexperienced sponsor handles SPAC and takes time in cracking deal then it would increase the opportunity cost of the investor's fund and cause a rift between sponsors and the shareholders. This would further cause uncertainties and huge redemption of trust money leading to liquidation of SPAC. Such situation would never arise in a traditional IPO as the regulations and due diligence in traditional IPOs are water-tight which leaves no gaps for uncertainties and adverse liquidations.

IFSCA (Issuance and Listing of Securities) Regulations, 2021 on SPACs

The recent notification of these (IFSC Regulation) by the IFSC Authority in the GIFT City can be a way which will lay the foundations of Reverse mergers by SPAC in India. The regulations are widely similar to the SEC regulations in America. Some of the notable points from the IFSC Regulations are listed below:

- IFSC Regulations for the first-time gave important definitions for

- SPAC: "a company which does not have any operating business and has been formed with the primary objective to affect a business combination"
- Business Combinations: "a merger or amalgamation or acquisition ofshares or assets of one or more companies having business operations"
- Sponsor: "person sponsoring the formation of the SPAC shall and include persons holding any specified securities of the SPAC prior to the IPO"

- Issue Size - not less than USD50 million.
- Sponsor share – Minimum 15% and maximum 20% of the post SPAC IPO share capital.
- Offer Period – Minimum 3 days and maximum 10 days.
- Price – Price will be determined by a fixed price mechanism.
- Underwriter Commission – 50% commission shall be deferred till the target company is

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[30] *Regulation 2(s) of the IFSC Listing Regulations*

[31] *Regulation 2(b) of the IFSC Listing Regulations*

acquired. If there is liquidation of SPAC, underwriter shall lose the claim of deferred fees.

- Application Size – Minimum Application size shall be 100,000 USD and significantly a particular investor cannot hold or invest in more than 10% of the total share capital.
- IPO Proceeds – The IPO proceeds shall be put in an escrow account handled by an independent custodian which shall not be used until acquisition.
- SPAC Units- Each unit that a shareholder would get would consist of 1 share and 1 warrant. 1 equity share shall not be less than 5 USD. Warrant would expire if the SPAC is liquidated.
- Redemption – Redemption on Pro-rata basis is available only to the shareholders and not to the promoters,
- Time limit to acquire – The completion of acquisition of the Target Company shall not exceed 36 months.
- Lockin Period – The shares of Promoters, group promoters, KMP would be locked up to 1 year from the completion of combination.

CHAPTER 3, Conclusion and Suggestions

The future prospects play a great role today and SPACs are product of such future prospects. The SPACs hold great power within them. But with great power comes great responsibilities and in this case the SPACs hold a great responsibility that they should produce much more profits than traditional IPOs. There are examples that produced much more returns through SPACs than traditional IPOs and there are also many researches that states that the SPAC IPOs generally do not produce much profits and starts to freefall on announcement of mergers. Whereas some researches also show that SPAC has been a great tool for small companies to go public. "SPAC acquisitions are a viable alternative to IPOs for firms that wish to access the public markets in turbulent times when IPOs may be difficult to accomplish. Although there is a cash out advantage associated with SPAC acquisitions, they do not seem to attract profitable and prestigious firms."[33]

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[32] *Regulation 2(o) of the IFSC Listing Regulations*

[33] *Kolb J., Tykvová T. (2016 July 21) Going public via special purpose acquisition companies: Frogs do not turn into princes. Journal of Corporate Finance.https://www.sciencedirect.com/science/article/abs/pii/S0929119916300852?via%3Dihub*

How to interpret performance ratios – case on Cholamandalam Investments & Finance Co Ltd.

- Hirdayansha Sharma

Considering a financial outcome of Cholamandalam Investment & Finance Co Ltd, some of important ratios are being interpreted comparatively for year ending March 2021. To start with a brief detail about Cholamandalam Investments which was incorporated in 1978, started as financial services arm of Murugappa Group. Initially they started their business equipment financing company and now they provide vehicle finance, home loans, home equity loans, SME loans, investment advisory services, stock broking and other variety of financial services.

Chola's vision is to enable customers to have a stronger life. Chola contains a growing 7.75 lakhs happy customers and counting across the country. Ever since its inception and every one through its growth, the corporate has kept a transparent sight of its values. The fundamental tenet of those values could be strict adherence to ethics and a responsibility to all or any person who came within its corporate ambit- customers, shareholders, employees and society.

RATIOS

Industry	Finance
P/E	28.18
P/B	4.29
Debt/Equity	6.64
EPS	19.32
BETA	1.44

Source: Moneycontrol website

P/E: PROFIT-TO-EARNING: This is also called price multiplier or earning multiplier. It relates a company's share price to earnings per share. A high P/E ratio means a company's investor is expecting high growth rates in future or the company's shares are overvalued.

After observing the above table that company's stock is not overvalued and at the same time investors are not expecting higher growth rates.

P/B: PROFIT TO BOOK: It measures market's valuation of a company relative to its book value. It is calculated by dividing a company's stock price per share by book value per share. It is used by investors to identify the potential change in per share. P/E ratio 1 is considered really good.
P/B is more than 4 which means future for potential change in per share is good for investors. Furthermore, the company's market value is more in comparison with book value.

DEBT/EQUITY: It is calculated to know company's total leverage. It is calculated by dividing total liability by total liability of its shareholders. It measures the degree to which company is

financing its operations through debt versus wholly owned funds. Higher values mean that company or stock with higher risk to shareholder. It is difficult to compare Debt/equity across industry group where amount of debt varies. This company's debt to equity ratio is high this means there is chances for high risk for shareholders and the company is highly dependent on equity financing in comparison with debt financing options.

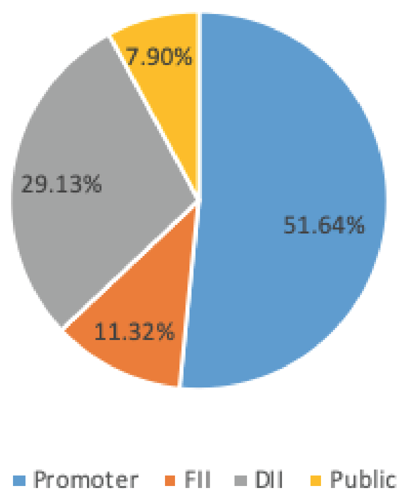
EPS: EARNING PER SHARE: It is calculated after dividing outstanding shares by its common stock. It tells us the company's profitability. It measures how much money a company makes for each share and it is widely used to estimate corporate value. A higher EPS indicates that investors are willing to pay more as they will get higher profits.

The EPS of the company is high which means the company is making high profit for its investors and they are also willing to take risk and pay more for returns.

BETA: It is a measure of stock volatility in relation to the whole market. A stock swings more than market over the time then it would have beta above 1 which means stock is more risky and higher returns potential whereas if stock moves less than market then its beta is less than 1 and such stock is considered less risky and lower return potential.

Looking at the above table one thing is clear that it is a very risky stock and at the same time investors can expect high returns as their beta is 1.44. Expectation of high returns can be seen from EPS as well.

SHAREHOLDING PATTERN



Promoter is a firm or person who does preliminary work related to formation of a company such work include flotation, incorporation, promotion and attract people to invest their money in the company after formation. Earlier times they were called projectors. Promoters don't need any qualification or license.

From the above graph we can conclude that in comparison with other heads the promoter is having maximum share in the company's shares that total comprises 51.64%.

FIIs Foreign Institutional Investors is an investment or investment funds, investing in a country outside the one in which it is registered or headquartered. All the FIIs should be registered with SEBI (Securities Exchange Board of India) to invest in the market. FIIs can be pension funds, mutual funds, investment banks and hedge funds. In India FII minimum investment is 24% of paid-up capital. However, they can invest more than 24% if it is approved by the company's board and a special resolution regarding the same is passed.

After observing the above graph, we can say that shares held by FIIs are 11.32% of total shares issued by the company, which means the company is diversified enough to encourage different forms of investment. Moreover, this signifies that the company is having its presence within the world.

DIIs (Domestic Institutional Investor) are investors who invest in securities and other assets in the country that are registered or headquarter. They are mostly mutual fund houses, banks, insurance companies, etc. Their decision is influenced by economic activities and political activities.

Number tells the story, one thing after looking at the shareholding pattern we can interpret is that DIIs is having 29.13% in the shares of the company, it signifies that company not only outside world but even in its own country the company is having a presence.

Public it means general person or group in population. In investment terms it generally refers to securities available on exchange or over-the-counter market and pollution who trades those securities.

Overall, after looking at the shareholding pattern the company is exploring every way possible to raise the money, but somehow the public shareholding (7.9%) is comparatively less as than major competitors.

Particulars from P&L

(Amount in Crores)

Particulars	Mar-21	Mar-20	Change
Net sales	9516.01	8652.63	9.98%
Total expenditure	2806.97	2367.39	18.57%
PBIDT	6712.65	6285.5	6.80%
PBIT	6614.35	6177.96	7.06%
PBT	2038.44	1585.73	28.55%
PAT	1514.91	1052.37	43.95%

Source: Moneycontrol website

NET SALES: Net sales is calculated by subtracting return, allowances and discounts from gross sales. They aren't always transparent as they can be factored into reporting top line revenues reported in financial statement.

From the previous year that is March-20 to the current year March-21 there is an increase of sales of 9.9%.

TOTAL EXPENDITURE: Expenditure means total purchase price of goods or services. For example: company purchases Rs. 10 lakhs piece of equipment, then it is expenditure. It can be classified into capital expenditure, revenue expenditure and deferred revenue. Sum of all of the above-mentioned heads is total expenditure.
Similar to net sales there is also an increase in total expenditure of 18.57%. This is double the increase in net sales.

PBIDT: PROFIT BEFORE INTEREST, DEPRECIATION AND TAX: It is a measure of a company's overall financial performance and it is used in substitute of net income. It is a good measure of core profit trends as it doesn't count extraneous factors which provide accurate results. Moreover, it can be used to estimate cash flow available to pay debt.

PBIT- there is an increase of 6.80% this section is usually preferred to be seen by lenders.

PBIT: PROFIT BEFORE INTEREST AND TAX: It is the company's net income before deducting income tax expense and interest expense. That is why it is also called operating income. It is used to analyses a company's performance without impacting cost of capital structure and tax expenses impacting profit.

PBIT - there increase of 7.06%, this head is also preferred by lenders as it keeps out difference in leverage.

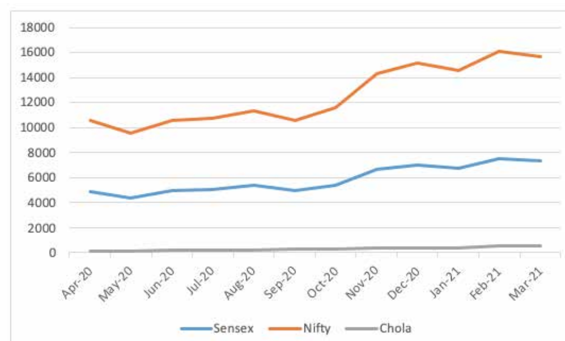
PBT: PROFIT BEFORE TAX: It shows the company's earnings before tax are considered. Or shows the company's earnings after deducting the company's cost of goods sold and other operating expenses from sales. It is important because it removes tax effects when comparing business.

PBT - there is an increase of 28.55%, this head quantifies the tax effect.

PAT: PROFIT AFTER TAX: It is a remaining amount left with the company after paying all operating and nonoperation expenses, liabilities and taxes. It is the profit that is distributed to shareholders as dividends or kept as retained earnings in reserves. This is very important as it determines operational efficiency and performance.

PAT - there is an increase of 43.95% this head is considered by investors as it determines the final amount the investor will get.

MOVEMENT PATTERN WITH SENSEX & NIFTY INDEX



Above is the comparison chart of scrips with major indices. It can be seen that the stock has underperformed the market for the whole year.

TECHNICAL ANALYSIS

20 DMA	50 DMA	100 DMA
Rs.543.07	Rs.500.082	Rs.433.091

- Daily moving average is calculated by traders to choose between enter or exit the position.
- 20 DMA is crossing 50 DMA, thus resulting in short term bullish trends in the stock.
- 100 DMA gives a clear picture in the medium period. In this case this is going downward slowly, which means prices are soon declining and quickly bottom out before they start recovering again.

The company has drawn a well-defined path to bring digitization to all the processes. Under their vehicle financing segment, they already have nine different projects. They are also going to focus on their pertaining market share and improving customer experience.

Meme Stocks 101 : Catching up with the Global Hype and Navigating the way forward

- Shreevidya

Hype on social media can have colossal effects which has been apparent from the dotcom stock and GME stock chaos. The present article aims at conceptualizing and understanding 'Meme Stocks' in toto. The research paper is in the nature of a Descriptive and Explanatory Research. The last part of the present article pertains to the future of regulating Meme Stocks and adopts a Comparative Law approach.

The research manuscript begins by defining what 'Meme Stocks' are and gives an overview of the 'Ape Dictionary.' It thereafter explains the functioning of Meme stocks by elucidating its phases. The advantages, functionality and potency of the aforementioned Stocks being used as tools of financial education are then explained. Considering the pros, the pragmatism or Viability of investing in these stocks has been vetted. Lastly, a Comparative Law Research has been conducted to understand how Meme Stocks are being regulated across the globe. On the backdrop of the preceding point, the regulations prevailing in India are stated and plausible suggestions are made to brace our system against the upcoming trend of Meme Stocks.

Key Words: Meme Stocks, Social Media, GME Stocks, Short-selling, Market Regulations.

1. Background:

Hype is merely an hors d'oeuvres of the multifold challenges which social media poses in this digital world. It is a potent marketing weapon in the hands of social media account holders who may be Corporations, directors, promotors, shareholders, laymen etc. Social media realm is often engulfed in various waves of frenzy. A hype, having power of creating ripple effects, may pertain to earnings, potential mergers, collaborations, purchases, etc.

Online chat rooms had hyped the dotcom stocks in the early 2000s. Whilst there exist procedural laws pertaining to public announcements when it comes to posting market-sensitive information/merger , the fact that such internet posts often pertain to mere abstract speculations which are often posted by unrelated persons create a loophole for hypers to escape the technicalities of law.

"I believe that XYZ stock is going to be very profitable for me", is a simple statement which has the immeasurable potential to shift the market trends. Albeit, such a statement is not illegal nor can be deemed as a misstatement as it merely expresses one's personal opinion, it can have colossal effects similar to the infamous hype of GameStop/GME stocks.

In August 2020, one Mr. Cohen, campaigned purchasing GME shares by posting on the Subreddit page. Placing reliance upon this post, Mr. Keith Gill posted a video wherein he explained how the

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[34] *Submitted on 15/11/2021 by Adv. Shreevidya Nargolkar. [LLM student at NiSM-MNLU, batch of 2021-22]*

GME stock may skyrocket. Furthermore, he highlighted that it had one of the highest number of hedge funds' short holdings. He gave a disclaimer stating that such hedge funds ideally should cover their positions in case of a huge short-squeeze, propelling the price substantially higher.

Several memes (informal and modern methods of satirical jokes forwarded on various social media platforms) surfaced online and brought the GME stock to limelight. The stock which was initially being traded at $5 concluded at approximate $20 in December 2020. This was a fourfold rise from the price since Mr. Cohen and Mr. Gill's social media posts.

Thereafter in January 2021, the short squeeze as predicted by Mr. Gill took place and the said shares went beyond the moon up to $500. The cause and effect of this was a frenzy of short covering and panic buying to close. As warned by Mr. Gill, a few hedge funds faced huge losses, some of which were forced to close. Post this chaos created due to a hype coupled with memes, a new terminology was coined for such stocks namely, 'Meme Stocks' the meaning of which shall now be discussed.

2. Meaning & Etymology of 'Meme Stock':

'Memes' rose in popularity as the internet and social media evolved, allowing users to quickly share hilarious, fascinating, or caustic videos, photographs, or articles with people all over the world. The quick and multiplying impact of sharing such posts has the potential to make them "viral."

A stock which has garnered a frenzy following online is known as a meme stock. Meme stock groups may thus have a significant impact on the pricing of such shares by coordinating attempts to launch short squeezes in heavily shorted names, for example. As a result, meme stocks might appear to be overpriced compared to their fundamentals while remaining elevated for extended periods of time as meme stock community members maintain their values propped up.

'Meme Stock' terminology is said to be coined during the mid-2020 amid the GME Stock frenzy although this was not the first time a stock was hyped on social media. It is interesting to note the similarity between the first instance of such occurrence (in Japan) and the GME stock frenzy.

3. The Nichidai Stock Hype & Ape Dictionary:

The first instance of 'Meme-trading' occurred two years before the term was coined in 2020. It was in Osaka, Japan, where one Mr. Toru Yamada invested in Nichidai and shared the news on Twitter. He had over 55,000 followers on Twitter back then. Resultantly, the Nichidai stock multiplied six-fold in the first three months of 2018, before regaining the majority of its gains.

Mr. Toru Yamada along with another man were thereafter imprisoned for market manipulation. They were arrested for promoting the stocks on Twitter and were also suspected of attempting to keep the share price low and to get margin-trading restrictions lifted, which resulted the shares skyrocketing manifold times.

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[37] *https://www.investopedia.com/meme-stock-5206762*

Meme stocks are ones that have been pushed up by internet forums for tiny investors, resulting in short sells and short squeezes. A lot of new terminologies, slangs and informal phrases have also been framed and used commonly ever since Meme stocks were hyped on social media. Compilation of these words are now known as the 'Ape Dictionary' and some of its words are as follows:

a. "Diamond hands" implying strong hands (or adamant persons) that would not sell even on dips;
b. "Tendies" indirectly means profits, humorously alluding to how many chicken tenders may be bought with them;
c. "To the moon" expressing anticipation of extremely above-average returns;
d. "Lulz" implying the emergence of legacy companies from ashes in stock market;
e. "Apes" which refers to the 'Members' of the meme stock community.
f. "FOMO" which means the 'Fear Of Missing Out' on an opportunity to invest in sky-rocketing stocks.

4. Conceptualizing Meme stocks:

To begin with, a meme stock garners online attention. It is then hyped and debated upon by a younger generation of investors on internet forums (e.g.; Reddit). Consequently, the stock gains popularity. Being viral, its market price gets uncoordinated with its fundamentals.

In other words, the security's intrinsic value, determined by indicators such as Dividend Yield, Price to earnings ratio to growth ratio (PEG), Price to book value ratio (P/B), Dividend payout ratio (DPR), etc. , may not be as accurately indicative to the stock price as it otherwise ought to be.

Meme stocks are very volatile. For some investors, not partaking in the excitement causes FOMO, i.e. 'Fear Of Missing Out' on possible stock market profits.

Recent investor frenzy around meme stocks such as GameStop and AMC had led the market players undertaking speculative transactions on declining corporations. This further led to causing their prices to rise and their stock values to shift dramatically.

5. Life Cycle of Meme stocks:

The Meme stock cycles begin with a small group of investors who spot a mutually discussed undervalued stock. Then they collectively buy it in significant quantities. The stock's price thus, gradually begins to rise. This is commonly known as the 'Early Adopter Phase' and proves to be an excellent moment to invest.

Hereafter the vigilant investors recognize a rise in volume which keeps increasing throughout the middle phase. Consequently, more people begin to buy, and the stock's price "goes to the moon". This phase is also known as 'Purchasing phase' due to the high volume of purchases.

The next phase is called the FOMO Phase. During this, the stock is viral on internet. A FOMO

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[38] *https://www.businesslive.co.za/bd/companies/2021-03-14-a-japanese-day-trader-invented-meme-stocks-not-wallstreetbets/*

takes hold and more ordinary investors join in albeit, it being late. This phase is thus, also known considered as the end of the purchasing phase and during this stage, the stock is skyrocketing.

The last phase is the 'Profit Taking Phase' wherein entrants begin selling. The sales phase, much like the purchasing phase, develops a chain reaction as individuals risk running at a loss. The price thus drops again.

6. 'Meme stock' as a tool for imparting financial education and evolving investor trends:

Financial education with practical experience is a significant thing which an amateur investor learns vide investing in Meme stocks. According to Public survey of new retail investors, 81% of former Meme stock investors later diversified their portfolios, with more than half of them investing for the long run. This shows that a majority of them realized the impracticality of investing in Meme stocks and also put a thought as to how they should invest their savings. Diversifying portfolios is a mark of financial literacy. Further, the fact that a majority of investors decided to invest in the long-term investments is sine qua non for greater capital availability in the market for issuers which is deemed to boost economy of the respective country.

Meme stock traders join the market with speculative transactions and large risks. It is worth noting that these new investors frequently learn rapidly which is apparent through their ability to tap the Meme stocks while the popularity lasts and also their ability to take decisions pertaining to the sale of such securities. Such investors assess the market and keep abreast with the general market trends. Consequently, they are able to expand their investments to other parts of the industry and take informed decisions on the basis of sound reasonings. After gaining some insights, they also alter their investment plan in ways that help raise finance in sectors which are profitable for both, investors as well as issuers.

Besides amateur investors, other investors should pay also heed to such Meme stocks as understanding what smaller traders seem to be doing is critical. It is undisputed that the valuation is speculative and based on viral internet activity and thus, its peaks are followed by collapses. Nevertheless, if a vigilant investor can get in early enough and follows important communication channels he may earn beyond-the-moon profits.

Many market analysts have opined that the market investors now stand divided into two broad groups namely, the investors who have accepted increased risk with Meme stock investing, and those who are conventional investors. The analysts also opine that the majority of conventional investors have not readily switched their long-term investment strategy to a more speculative short-term trading one but instead prefer a hybrid of the two.

If one plans to invest in Meme stocks, then following discussions on Reddit and YouTube is of immense importance. These platforms fuel demand vigorously making it is critical to keep an eye on their trends. This would also help the investor to effectively determine when to invest in Meme stocks as well as when and whether to sell.

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[39]*https://money.usnews.com/investing/dividends/slideshows/dividend-stocks-to-buy-and-hold-forever*

7. Viability of investing in Meme stocks:

It is apparent that one may profit greatly from meme stocks, but the major disadvantage is their volatility. This makes the stock highly volatile and can only be good if the investor's luck is as good as his/her risk appetite and timing to tap the stock during the Early Adopter Phase. The other disadvantage is the over-investments in low-yield sectors which would not be fruitful as far as economic development of the sector or the nation as a whole is considered. For instance, investing in a company merely to be a part of a viral 'Lulz' trend seems foolhardy.

The price of a meme stock is directly proportional to the popularity it gains on social media rather than by the fundamentals of the company's core business. As social media, firehouse of hype, fuels the flames of popularity more, more and more individuals buy the shares. This results into the prices going 'beyond-the-moon' for no reasonable reason. The superficiality surrounding the high price makes it impossible for the price to stay high for a long time. It declines just as fast as it skyrocketed in the first phase. Knowing when to exit is important especially if the investor entered during the Purchasing Phase or worse, the FOMO phase. Amateur investors, whether young or old, seldom have surplus funds to gamble with while trading in Meme stocks and bearing losses can take a toll on their future. Whilst investing in Meme stocks, investors effectively play a guessing game. Perhaps understanding this, the infamous Company Robinhood has gamified their whole trading interface.

Robinhood Co.'s App has allegedly made young investors addicted to trading by using digital confetti to celebrate trading firsts, animated celebrations online, and use of emojis. This App was also believed to have fueled the GME stock and thus, garnered criticism from the regulators and policy-makers. Robinhood thereafter restricted its users from trading in GME citing market volatility issues. While this seems a good decision to curb the chaos, Robinhood faced criticism from the 'Apes' i.e. Members of the Meme stock investors as well as regulators. The company had also restricted trading in Blackberry, AMC and Nokia citing similar reasons. The said company is now under strict surveillance of the SEC for its gamified methods of trading, inadequate disclosures and misleading statements.

8. Future of Regulating Meme Stocks Globally & Conclusion

On 18th October 2021, a board constituted by the SEC submitted a report which put forth suggestions for issues raised post-GME stock frenzy. The report inter alia covers subject-matters of forces leading to restrictive trade practices for online brokers, digital engagement practices, trading in dark pool, short selling market dynamics, etc.

The Canadian Securities Administrators (CSA) also issued a consultation paper pertaining to

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[40] *https://www.nasdaq.com/articles/everything-you-need-to-know-about-meme-stocks-2021-06-09*

[41] *Pointer 2 (d)*

[42] *https://spinninvest.com/finance/the-pros-cons-behind-meme-stock-investing/*

[43] *https://news.bloomberglaw.com/securities-law/sec-gamification-study-ups-reporting-threat-for-online-brokers*

[44] *https://www.sec.gov/news/press-release/2021-212*

[45] *https://www.investmentexecutive.com/newspaper_/news-newspaper/meme-stocks-loom-large-in-the-csas-short-selling-review/*

the same and more particularly on the regulation of active short sellers. A Toronto based AI advisor suggests that it would be fruitful if customer's orders are listed as pending or cancelled rather than blocking trades like Robinhood Co. attempted to do. An automated system of user safeguards can be activated if the price of any stock fluctuates by 5% between the time ever since the order is placed and the time until the order is settled. This would deem to be a pro-investor mechanism.

The European Commission intends to regulate the market by mirroring methods adopted by the US SEC. A review of Markets in Financial Instruments Directive inter alia is predicted to better regulatory mechanisms. The EU's financial services are also closely monitoring all transactions for order flow. This monitoring was considered to be hard as there is no converging view of all liquidity & pricing of stocks traded across European markets. Meanwhile, Swiss investment firms are attempting to deploy AI mechanisms to detect fluctuations in Meme stocks.

Singapore's regulators have also adopted various measures which are similar to the mitigating methods adopted by Robinhood Co. The regulators employ circuit breakers which briefly block trading of a particular security. These regulations aim at detecting sudden price fluctuations and penalize market malfeasance. The regulators also have to authority to issue 'Trade with Caution' notices and to make public enquiries if they detect such fluctuations.
Lastly, the Australian Securities Investment Commission has also released a corporate plan with an aim to tackle issues of increased investment scam activity in a low-yield environment posed by Meme stocks.

While other countries grapple with framing half-baked regulations for regulating market trends hyped on social media and the threats of cyber crimes owing to Meme stocks, the Securities Exchange Board of India has an edge over the other nations considering the circumstances prevailing in the country. SEBI had already opined that companies listed in India can post their earnings on social media Apps as long as they provide any market-sensitive information to stock exchanges first. This has been a marvelous step to avoid the underground and unauthenticated flow of such information. SEBI had recently deployed AI mechanisms in an insider trading case of Fidelity Group. It had also issued a Circular pertaining to unauthenticated market related news or rumors spread by Registered Market Intermediaries through various modes of communication.

SEBI has had an excellent Cyber Security & Cyber Resilience framework for Stockbrokers / Depository Participants since 2019. It may however be fruitful for SEBI to keep in tune with the

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[46] https://globalnews.ca/news/7606254/canada-meme-stocks-reddit/

[47] Consultation Paper Review of certain aspects of the Short Selling Regulation https://www.esma.europa.eu/sites/default/files/library/esma70-156-3914_consultation_paper_on_the_review_of_certain_aspects_of_the_short_selling_regulation.pdf

[48] https://www.business-standard.com/article/international/european-commission-set-to-ban-trade-practice-propelling-meme-stocks-121111000041_1.html

[49] https://www.ft.com/content/dcd86860-09ed-420e-a5cc-d6d281863c03

[50] https://asic.gov.au/about-asic/corporate-publications/asic-corporate-plan/

[51] https://economictimes.indiatimes.com/markets/stocks/news/sebi-keeping-tabs-on-social-media-for-insider-trading-clues/articleshow/73053225.cms?from=mdr

[52] Circular No. Cir/ISD/1/2011 dated March 23, 2011 & an addendum to it on March 24, 2011 (available on www.sebi.gov.in)

changing global and national regulatory dynamics. The global regulatory aspect has already been dealt with in the preceding paragraphs. It is pertinent to briefly advert to the national cyber law development.

Post the Justice B.N. Srikrishna Committee Report which examined data protection and also suggested methods to address them, several deliberations have taken place about the privacy of internet users. The Bill has been reviewed by the Joint Parliamentary Committee. The reviewed and amended Bill commonly known as the PDPB 2019 may be passed in the Winter Session of the Parliament.

In this scenario thus, it may be a good time for SEBI to strengthen the hands of regulators for monitoring and regulating malafide practices on social media. The investors can be saved from cyber scams and correspondingly may curb the issue of over-investing in low-yield sectors merely on basis of a hype. In future, SEBI may be able to funnel Meme stock related investigations if investigating mechanisms like tracking of IP address are already in place as market influencers often use pseudonyms on their social media accounts. E.g. : Mr. Toru Yamada used the pseudonym 'Topin' on his Twitter Account.

An automated system for raising flags/alerts can be adopted whereby regulators can be notified if words of the Ape Dictionary are being excessively used on any social media post(s). Such system may also help detect keywords or slangs which are commonly used whilst hyping a stock. Such regulations can also help to protect the data of investors by penalizing internet sites which collect investor data as and when the investors visit sites or open posts pertaining to such stocks. All of these will provide a holistic protective shield to the investors and at the same time shall promote market transparency and integrity.

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[53] *https://www.sebi.gov.in/legal/circulars/dec-2018/cyber-security-and-cyber-resilience-framework-for-stock-brokers-depository-participants_41215.html*

[54] *http://burnishedlawjournal.in/wp-content/uploads/2020/06/PRIVACY-POLICIES-OF-ONLINE-APPS-VIS-%C3%80-VIS-INDIVIDUAL%E2%80%99S-RIGHT-TO-PRIVACY-by-Adv.-Aditi-Mahale-Ms.-Shreevidya-Nargolkar.pdf*

Case Comment: Tata Consultancy Services Ltd. v. Cyrus Investments (P) Ltd. C.A. No.-000440-000441 / 2020. (Judgment Date: 26.03.2021)

- by Riya Jacob, Student at NISM (LLM 2021-22), e-mail: riya-llm-2021-22@nism.ac.in

Abstract

The case is on the legal battle that unveiled within the TATA Group in 2016 when its then Executive Chairman Mr Cyrus Mistry was ousted from his post as decided by the company Board. He initiated legal proceedings in the NCLT alleging oppression and mismanagement, where his case failed. On appeal to the NCLAT, the decision got reversed, that is, in favour of the Mistry family. But the respondents went ahead with further appeal to the SC where the final victory was theirs, the Tata Group's. The case is one of significance as it touches upon many important corporate law concepts, oppression and mismanagement being one of them and is also one where the apex court overturned the NCLAT's judgment with some solid reasoning.

Keywords: oppression, mismanagement, minority shareholder, winding up.

Background

The TATA Sons Ltd was formed in 1917 under the Companies Act, 1913. As of now, 65.89% of the shares are held by two Tata trusts; 18.37% is held by the SP Group and 12.87% held by operating companies. The remaining shares are held by Ratan Tata himself and others. The SP Group consists of two companies namely- Cyrus Investments Private Limited and Sterling Investment Corporation Private Limited. The SP Group belonged to the Mistry family. From 1980 to 2006, Sri Pallonji Mistry acted as the Non-executive Director of the Board and from 2006 Cyrus took over the position from his father. From 2012 to 2017, Cyrus was appointed as the Executive Deputy Chairman of the group vide a resolution passed by the Board and was approved in a General Meeting. Later in 2012, Cyrus Mistry was redesignated as Executive Chairman of the Group. But in October 2016, he was removed from the post of Executive Chairman and whether to continue as a Non-Executive Director was left for him to decide. This incident was the point of ignition for the legal battle that unveiled between the salt-to-software conglomerate and the Mistry family (SP Group). Aggrieved by the loss of the position he held, the Mistry Group moved the NCLT alleging oppression and mismanagement against the Tata group for ousting him. The NCLT (July 2018) ruled in favour of the Tatas and held that the removal of Mistry from the post of Executive Chairman was just and legal and well within the jurisdiction of the parent group. The Mistrys moved the NCLAT and the appellate body reversed the NCLT decision in December 2019. According to the NCLAT, the removal of Mistry from the Executive Chairman position was illegal and the group indulged in oppressive practices and mismanagement of its affairs that were prejudicial to the minority shareholders (the SP Group) and to itself. The Tatas went with an appeal against the NCLAT order to the Supreme Court and in January (2020) the apex court stayed all reliefs granted to Cyrus Mistry by the NCLAT. The matter was decided finally in March 2021, by a three judge bench, led by Chief Justice SA Bobde and including Justices A S Bopanna and V Ramasubramanian where the apex court ruled in favour of the Tata Group. It was held that

there is no case of oppression and mismanagement at Tata Sons, as alleged by Cyrus Mistry, its former chairman.

It is also important to see why the allegation of oppression and mismanagement was made in the first place. The reasons include the alleged abuse of Articles of Association by the majority shareholders, illegal removal of Cyrus Mistry as Executive Chairman, dubious transactions with Tata Teleservices Ltd, failure of the Nano car project, failure of the Corus Group PLC acquisition, extending corporate guarantee to IL&FS Trust company, the DoCoMo deal, Air Asia deal etc.

Questions of law

1. Whether the NCLAT's opinion on oppression and mismanagement in the company affairs and that it would have to be wound up under 'just and equitable' clause be justified?
2. Whether the reliefs granted by the NCLAT were in consonance with the pleadings made and were they within the powers available under s.242 (2) of Companies Act, 2013.
3. Whether the NCLAT muted the power under Article 75 by simply restraining the invocation of the Article without setting it aside. (Article 75 provides an exit route for the unwilling partner).
4. Whether the affirmative voting rights available under Article 121 to the Director of Trusts - were held as oppressive or not.
5. Whether the reconversion of the company from Public to Private required approval under s.14 of 2013 Act or at least an action under s.43 A (4) of the 1956 Act during 2000 to 2013, as held by NCLAT.

Judgement

The Supreme Court after considering all the above five questions of law ruled in favour of the TATA Group and dismissed the appeals filed by the SP Group, the complainants.

Analysis

The case can be primarily seen as on ve alleging oppression and mismanagement against the minority shareholders and this allegation was pressed for the reason of removal of Cyrus Mistry from the Executive Chairman Post and directorial position in some operating companies of the group along with other allegations. It is pertinent to note that initially the NCLT had said that the petition filed by the SP Group was not maintainable as they did not satisfy the condition stipulated in Section 244(1) (a) of 2013 Act as they held only 2% of the shares. The NCLT denied to wave this condition and on appeal to NCLAT, the condition was waived and the matter was remanded back to the NCLT which was not later challenged by the TATA Group. So the maintainability of the petition itself could have been a question which was overlooked by the parties involved. Also, the NCLT in the original company petition has considered every allegation in detail and ruled in favour of TATA whereas on appeal to NCLAT not only did the ruling get reversed but, only a few allegations were considered and were answered summarily. The NCLAT focused only on three allegations namely- the removal of Cyrus Mistry, affirmative voting rights of Trust Directors and reconversion of name From 'Public' to 'Private'.

Looking into the judgment of the apex court, one could see that the court has delved deep into each question of law and thoroughly analysed the law and facts and has ruled in favour of the TATA Group. The judgment is well reasoned and leaves no doubt.

In the first issue the SC rightly held that removal of Mr.Mistry from Executive chairmanship and directorship was legal and did not amount to oppression and mismanagement. The positions held by the Cyrus Mistry and his father was not with respect to any shareholding or other statutory obligations. The appointment was made on the basis of professional qualification and Sri Pallonji Mistry held a chairman post for the first time only in 1980. Reading Sections 241 and 242 of the 2013 Act, one can understand that such removal cannot legitimately be categorised as oppressive conduct and such removal in itself does not give a just and equitable reason to wind up the company. Another notable aspect could be that a suit for oppression and mismanagement ought to be a representative one and not derivative. A derivative suit is one wherein the issue is raised in individual capacity. that is, when rights of such individual is violated. Here as we can see, the suit filed by Mr Mistry was representative when none of the rights of the minority group (SP Group) that he represented were violated. In the allegation raised by him, it was just his own rights that were at stake. But having taken a closer look at the facts and law, it comes to light that even his individual rights were not violated as alleged by him in any of the transactions that he had referred to.

The findings of the NCLAT on this issue is flawed because the question - should the two charitable trusts be wound up for mere uncharitable allegations of oppressive conduct almost has a clear answer.

With respect to the second issue, it can be seen that the reliefs granted by the NCLAT were not in consonance with the pleadings made. There was no plea for reinstatement by the complainant in the original company petition and the NCLAT's ruling came in 2017 when the tenure for Cyrus Mistry as Executive Chairman had already ended in 2017. Therefore the relief granted in this matter was over and above what was actually sought for.

With regard to the third issue, the NCLAT should not have muted Article 75 as such a claim was never made. The appellate Tribunal took such a stand on the mere apprehension of misuse which is not covered as a ground in s. 244(1) (a) of the 2013 Act. The SC rightly held that the Tribunal has no such powers under s.241 to discipline the management for a possible future misconduct.

In the fourth issue certain articles that dealt with affirmative voting rights of the Directors of the Trust were challenged and the complainants were seeking a proportional representation on the Board. The SC rejected the allegations supporting the affirmative voting rights bestowed on the Directors of a charitable Trust who are to act in pure public interest motive. Since the positions held by the Mistry family was not statutory, there could be no legitimate claims to proportional representation.

With respect to the fifth issue, the SC rightly ruled that the TATA Sons was a Private company falling within the definition under S.2 (68) of the 2013 Act. The reason behind the SP Group wanting to retain the Public status of the company could stem from the logic that most of its claims could stand only if TATA were a public listed company and not otherwise.

Another interesting fact could be that the case would have never reached the Supreme Court had the Tatas challenged the locus standi of the Mistry Group to bring in the suit before the NCLT. As we previously saw, neither was there any violation of the minority shareholder group nor was any of his individual rights abridged. Nonetheless, the Tatas never raised this contention and chose to go ahead with the legal battle.

The Supreme Court went till the roots of every allegation raised by the complainant and categorically explained each of their holdings with reason backed by law.

Conclusion

As mentioned earlier the ruling of the apex court was all in favour of the TATA Group and rightly so. This case could come handy in understanding a number of concepts in corporate law including corporate governance, oppression and mismanagement, amendment of articles, removal of directors, nomination and remuneration committee, extra ordinary general meeting etc. The case can be seen as one of the long fought boardroom wars in the history of corporate law. The case came to surface with the removal of Cyrus Mistry from certain positions held by him in the Tata Group for which he alleged oppression and mismanagement against the group wherein he had no standing to make such allegation as per s. 244(1)(a) of the 2013 Act. The SP Group is definitely a minority shareholder in the TATA Group but does not satisfy the legal requirement for bringing in a case of oppression and mismanagement. The case was fought despite this fact as the Tatas never raised this challenge. It is also one good example for a case where the decision of an Appellate Tribunal was elegantly overturned by the Supreme Court explaining each question of law meticulously. The SC only answered those issues which were considered by the NCLAT and with respect to those raised and settled by the NCLT but untouched by the NCLAT, it is presumed that discussion within the NCLT is full and final.

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2. Cyrus Investments (P) Ltd. v. Tata Sons Ltd., 2019 SCC Online NCLAT 858, https://nclat.nic.in/Useradmin/upload/9993183335e130f737d068.pdf
3. The Companies Act, 2013 (India)

The Future of Parcel Delivery

- Chitresh Goswami

Since the heyday of the dotcom boom, when the only options for retail customers were ‘standard' and 'following day,' home delivery has come a long way.

Pizza Hut began delivering pizzas to homes via bikes in the United States in 1994.

Whereas in other part of the world, it all began in 1890 under the British rule in Mumbai.

A 125-year-old meal delivery system was created for city workers known as Dabbawalas.

Nowadays, clients are offered a stunning scope of comfort, choices and administration – like assortment at various areas, same day delivery, request up to 12 PM for 24-hour, conveyance membership administrations, coordinated conveyance openings and considerably more – and home conveyance has turned into an essential differentiator for retailers.

One of the whales of this industry, Amazon will turn into the biggest home delivery administrator, and will offer every one of its administrations to different retailers.
Economies of scale and the importance of execution offer the advantage of being the least important cost player.

There will be proceeded with combination in the market as home delivery organizations are procured or go into organization, driven by the serious rivalry – not least from Amazon. Postal administrators confronted with proceeding with decay of letter volumes will put resources into building their bundle activities and purchasing contenders.

Same day delivery or administrations running from nearby loaded centers or stores will keep on developing as a top-notch administration in rich metropolitan regions. Albeit the financial aspects of same day delivery are undeniably challenging, the degree of buyer interest and development is driving this area advances.

Innovation and administration will keep on improving, with constant following of packages and people by means of applications on their telephone and continuous booking.

This will empower parcel delivery to be made to where the client is, and 'client not present' will become something from an earlier time. Doing this well will give a significant expense advantage, as re-delivery are extravagant for each package transporter. There will be proceeded with division between innovation pioneers and trailblazers who can charge more for better administrations and the spending plan for home delivery transporters.

Options of assortment will keep on expanding, with increasingly more store networks

presented as assortment focuses, expanding quantities of storage spaces and package stores, and more bundle shops.

It will get more straightforward to return buys, with more return courses and drop off.

There will be an expanding consideration on the ecological effect of home delivery, with an emphasis on decrease of vehicle miles and outflows, and the decrease of waste cardboard bundling.

A part of the disruptors that have long stretch potential includes:

Independent vehicles - Home delivery done by robots working from a self-driving vehicle might seem like sci-fi, yet as of now we are seeing models being tried by tech companies.
Strengthening Electric mobility – Amazon India and Mahindra holding hands, deploying electric three-wheeler Mahindra Treo Zor in almost seven major cities in the country.
Climate Pledge and meeting worldwide objectives, EV's will play a significant role in home delivery service.

Publicly supporting of delivery using public conveyance - There are various stages that match individuals who are going to a similar spot where delivery is to be done. Could one of these can possibly be the following Uber or any other ride-hailing service for home delivery, and will this drastically lessen costs?

The Unmanned aerial vehicles or say scandalous Amazon drones - This is brilliant PR (and surely gets a great deal of media consideration), it was supposed to start by 2018, while prime air is committed to delivery packages through drones, however, can just at any point be a specialty administration, because of flight guidelines, weight of bundles, and client security.

In five years' time, customers (particularly in metropolitan regions) will be given considerably more decision and comfort, with supporting innovation from cell phones. There will be less and better home delivery administrators, with advancement by the pioneers. Longer term - there will be critical industry interruption from new innovation, especially independent vehicles, and aerial vehicles most likely in the long-term skyline.

Buyers Cartels and Buyer's Groups: A Comprehensive Study of Economic and Legal Character

- Deepanshu Chandra and Khushi Verma

Antitrust regulators around the world have outlawed buyer's cartels either through express provisions or their jurisprudence is wide enough to impliedly cover buyer's cartels. The principal challenge which antitrust regulators globally have grappled with, while enforcing cartel regulations on buyers, is the procedural issue of differentiating between a buyer's cartel and a buyer's groups Buyer's groups are treated differently than buyer's cartels since they offer distinct economic advantages and also contribute towards maximizing consumer welfare by offering better prices. It is in this context that the decision was made to include buyers within the definition of cartels in the Draft Competition Law (Amendment) Bill. The bill while progressive, fails to appreciate the aforementioned difference between buyer's groups and cartels. In this paper, the authors have endeavored to analyse the economic conditions which give rise to buyer's cartels and what differentiates them from buyer's groups. With the theoretical foundations of the law identified, the paper goes on to observe cartelistic conduct among buyers across jurisdictions such as EU, US and Singapore. Finally, the response of anti-trust regulators in said regimes is analyzed with the purpose of incorporating useful changes in India's competition regime especially with respect to the identifying cartelistic behavior among buyer groups.

Keywords: Buyer's cartel, Buyer's group, Rule of reason, Leniency regime,

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Introduction

The Draft Competition Law (Amendment) Bill, 2020 was put up for public comments. Notable amongst its provisions is the proposal to include 'Buyers' within the definition of 'Cartels'. While this is a welcome step, it is most certainly not sufficient. The principal challenge which antitrust regulators globally have grappled with, while enforcing cartel regulations on buyers, is the procedural issue of differentiating between a buyer's cartel and a buyer's groups (Brand Name Prescription Drugs Antitrust Litig, 1997) Antitrust regulators around the world have outlawed buyer's cartels either through express provisions (as seen in the draft bill) or their jurisprudence is wide enough to impliedly cover buyer's cartels (Competition Commission Of India, 2018, 50) . Buyer's groups are treated differently than buyer's cartels since they offer distinct economic advantages (Piraino, 2002) and also contribute towards maximizing consumer welfare by offering better prices (Piraino 1998) . This provides an opportunity for buyer's groups to engage in cartelization which is seen to have an appreciable adverse effect on competition in the long run.(Carstensen, 2010) While in the case of buyer's cartels, the 'per se' standard is applied, buyer's groups are exposed to the 'rule of reason'.(Dowd, 1996) The former assumes illegality while the latter contains a strong presumption of legality.(Dowd, 1996) For anti-trust regulators, correctly applying these tests is akin to walking on a knife's edge since even a small margin of error could produce over regulation or under regulation both of which are equally undesirable. The reason for this is twofold: Firstly, anti-trust regimes across the world focus more on the adverse effects of seller cartels. Buyer's cartels are seen as a necessary countervailing power to offset the adverse effects of seller's cartels and hence treated with relative leniency. Secondly, because of such leniency, the market distorting effects of buyer's cartels are not sufficiently studied.(Carstensen, 2010) This has contributed to stunting the growth of monitoring and identification mechanisms which as of now remain suggestive at best.(Competition Commission Of India, 2018, 32)

This paper is divided into two parts. The First part shall examine in detail, the economic factors which are most favorable for the growth of a buyer's cartel. The primary aim here is to clarify the objectives which drive the creation and sustenance of either of the two entities which would serve as a sound basis for their differentiation. The secondary aim will be to identify the conditions under which the said objectives change which prompts a buyer's group to engage in cartelistic behaviour. The Second part shall thoroughly examine the anti-trust jurisprudence related to buyer power in USA, Singapore and India and this shall serve to give the reader a rich

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[55] *Brand Name Prescription Drugs Antitrust Litig., 123 F.3d 599-606 (7th Cir. 1997).*

[56] *Competition Commission Of India (2018). Cartel Enforcement And Competition Icn Special Project. https://www.internationalcompetitionnetwork.org/wp-content/uploads/2019/11/SP_Cartel2018.pdf*

[57] *Piraino, A.T. (1998). A Proposed Antitrust Approach to High Technology Competition. William & Mary Law Review, 44, 142-43.*

[58] *Piraino, A.T. (1998). A Proposed Antitrust Approach to the Conduct of Retailers, Dealers, and Other Resellers. Washington Law Review 73, 835-836.*

[59] *Carstensen C.P. (2010). Buyer Cartels Versus Buying Groups: Legal Distinctions, Competitive Realities, and Antitrust Policy. William and Mary Business Law Review, 1, 16.*

[60] *Dowd, M.J. (1996). Oligopsony Power: Antitrust Injury and Collusive Buyer Practices in Input Markets. Boston University Law Review, 76, 1094-1103.*

[61] *Dowd, M.J. (1996). Oligopsony Power: Antitrust Injury and Collusive Buyer Practices in Input Markets. Boston University Law Review, 76, 1094-1103.*

mosaic of international best practices such as the use of screening tests , leniency regimes, settlement mechanisms, advocacy employed by regulators globally. In the concluding segment, the paper shall attempt to address some of the lacunae identified in the previous segment with respect to regulating buyer's cartel in India and offer suggestions for its improvement.

PART 1- THE ECONOMICS OF BUYER POWER

Conceptually defined, a cartel is any form of arrangement between a group of competitors who have agreed to eliminate or reduce competition in their particular industry so as to maximise their own economic gains. A buyer's cartel focuses on the input side of the market in contrast to seller's cartels which focus on reduction of output. The objective here is to coordinate their purchasing activity in such a manner that they are in a position to extract concessions from the sellers. These concessions can be monetary such as offering reduced prices for goods and services or non-monetary such as prohibiting the seller from transacting with any other marginal buyers. While such activities have the initial effect of reducing the prices which consumers pay, in the long term, such cartelistic activities have the effect of restricting the total output. The end effect of reduction in the total output can lead to scarcity in the market which pushes up the prices which ultimately have to be borne by consumers.(Blair and Harrison, 1993, 36-42)

In simple terms, buyer's cartels transfer the economic gains from sellers to themselves and pass on a portion of such gains to the consumer. This is a primary reason why buyer's cartels are treated lightly than seller's cartels as anti-trust regulators view them as necessary evils which must exist to act as a countervailing force against the much more prevalent and damaging seller's cartels.(Galbraith, 1952, 109-112) A legitimate buyer's group on the other hand is formed for taking advantage of the benefits which a joint enterprise offers.(Davidow, 1974) Such abilities include but are not limited to reduction in transaction costs, higher quality procurement, bulk purchasing, logistical efficiencies, lengthier production cycles, etc.(Piraino, 1998) A legitimate buyer's group is not just beneficial to the buyer's but sometimes even sellers might encourage the formation of such groups as they have the capability for placing large purchasing orders.(Carstensen, 2010) Per se, buyer's groups perform a very important function namely collective bargaining which acts as a non-regulatory market force against seller

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[62] *Carstensen C.P. (2010). Buyer Cartels Versus Buying Groups: Legal Distinctions, Competitive Realities, and Antitrust Policy. William and Mary Business Law Review, 1.*

[63] *Competition Commission Of India (2018). Cartel Enforcement And Competition ICN Special Project. https://www.internationalcompetitionnetwork.org/wp-content/uploads/2019/11/SP_Cartel2018.pdf*

[64] *A screen is an economic, statistical or behavioural test which needs to be fulfilled in order to identify the existence of any anti-competitive behaviour to be established. It should generally be able to filter out both the implications of collusion and ordinary relationship between key market variables.*

[65] *Blair, R.D., & Harrison, L.J. (1993). Monopsony: Antitrust Law And Economics. Princeton University Press.*

[66] *Galbraith, J.K. (1952). American Capitalism: The Concept Of Countervailing Power. Transaction Publishers.*

[67] *Davidow, J. (1974). Antitrust, Foreign Policy, and International Buying Cooperation. Yale Law Journal, 84, 271-274.*

[68] *Piraino, A.T. (1998). A Proposed Antitrust Approach to the Conduct of Retailers, Dealers, and Other Resellers. Washington Law Review 73, 835-836.*

[69] *Carstensen C.P. (2010). Buyer Cartels Versus Buying Groups: Legal Distinctions, Competitive Realities, and Antitrust Policy. William and Mary Business Law Review, 1, 16.*

monopolies. This is turn ultimately brings benefits to consumers as it makes the entire market more efficient. The above rationale serves as a fertile ground for the growth of cartelization in the garb of buyer's groups. Once such cartels come into existence, they can engage in influencing supplier conduct by requiring seller's to not engage with buyer's that are alien to the group, collusive bidding, buyer-seller arrangements, etc.

Certain market conditions must prevail for a buyer's cartel to take root. For the purpose of this discussion, two such conditions shall be discussed in detail. The First condition is when the supply is inelastic. This implies that the seller side of the market cannot rapidly scale up or scale down production without incurring significant losses. An example can be taken from the power sector. Power companies need to be able to supply electricity continuously to the grid. The demand from the grid can vary during daytime when it's at its highest to night when at its lowest. To meet such needs, power companies keep some of their plants operating at a high level of output enough to meet the demand from the grid for most of the day and keep 'peaker plants' in reserve to meet the demand during peak hours. This is because whenever a coal or a nuclear power plant is shut down, it takes a significant amount of time and cost to restart. So, the supply from such plants is very inelastic. If the power demand were to drop below such thresholds, the power company would be exposed to significant cost. In a nutshell, it can be said that in a market where suppliers are constrained from decreasing supply beyond a minimum threshold, there is a significant risk of abuse of buyer power. (American Antitrust Institute, 2008, 290-305) The second condition is the share of purchases which a single buyer or a group of buyers can make as a joint enterprise. In the seminal US case of Toys 'R' Us, it was held that market share as low as 20% conferred sufficient buying power which put suppliers at a competitively unviable position.(Toys "R" Us, Inc. v. FTC.,2000) Similarly, upon analyzing data from sale of grocery products in the United Kingdom, it was observed that a market share of 10% put the market under risk of abuse by buyer's cartels.(Dobson, 2005) It is owing to such instances that regulators have developed what are known as 'safe harbour' standards. Such standards confer an assumption of legality to buyers who collectively possess market shares less than a specified percentage of the total buying for that particular market. While there are no universally accepted safe-harbour standards, critics argues that such standards should generally not exceed 15%.(Carstensen, 2010)[73]

The point of difference between both kinds of entities is very hard to determine though not impossible. An important difference between the two kinds of entities seems to originate from the purpose of their inception. If a group exists for the purpose of co-ordinating and managing the buying activities, purchasing priorities and to some extent influencing their investment decisions then the same can be safely classified as a buyer's group. If on the other hand, the group exists solely to coordinate the buying activities of the constituent units and the degree of integration in other areas of business activity are relatively modest or absent, then the same can be said to be a cartel.(Carstensen, 2010) Applying this functional differentiation approach

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[70] *American Antitrust Institute, (2008). The Next Antitrust Agenda: The American Antitrust Institute's Transition Report On Competition Policy To The 44th President Of The United States.*

[71] *Toys "R" Us, Inc. v. FTC, 221 F.3d 928, 937 (7th Cir. 2000).*

[72] *Dobson, P.W. (2005). Exploiting Buyer Power: Lessons from the British Grocery Trade. Antitrust law Journal, 72, 529-537.*

[73] *Carstensen C.P. (2010). Buyer Cartels Versus Buying Groups: Legal Distinctions, Competitive Realities, and Antitrust Policy. William and Mary Business Law Review, 1, 20.*

comes with a raft of challenges which can be very hard to deal with. For starters, legitimate buyer's groups many a times do not have a distinguishable system of governance as the agreements between them can be very informal.(Carstensen, 2010) If one extends the ramifications of such informal and fluid structural arrangements, it is plausible to assume that for an anti-trust regulator it presents significant monitoring challenges. The absence of any contractual arrangements in some cases makes it impossible to find out when the cartel or group was formed which in turn makes it very difficult to determine the point of time when the cartelistic maximise arose. Such tacit agreements between buyers also makes it very difficult to identify all the members of a cartel. A 'Hub and Spoke cartel' is a classic example where such problems can be observed.(Barik, 2020) A hub and spoke cartel in traditional anti-trust parlance operates like a horizontal agreement. A group of competitors ('spokes') collude together with the help of a commission agent or any entity which acts as a middleman for coordinating the activities of the spokes.(Barik, 2020) Such conduct can be observed in buyer and seller cartels and has become a cause of concern for regulators everywhere. While the spokes are easily identified, evidence of the existence of hubs is very hard to come by.(Barik, 2020) Notably, the Competition Law Review Commission(CLRC) Report, 2019 has taken cognizance of such conduct in India and has suggested the inclusion of express provisions into the Competition Act (Competition Law Review Committee, 2019) However, such provisions have not been included in the draft bill.

PART 2- COMPARATIVE ANALYSIS OF ANTITRUST JURISPRUDENCE

To address the problems as highlighted in Part-1, Antitrust regulators have been evolving new techniques and interpretations out of the standing corpus of competition jurisprudence. Thus, a systematic rule-oriented approach to differentiate between buyer's groups and buyer's cartels has been developed. However, the approach has its flaws as agreements increasing the economic efficiency without creating any Anti-competitive effects themselves are not readily and practicable distinguishable from pure cartelistic arrangements between buyers. This section will look into detail as to why that is the case as well as how and which practices have striven to address this problem.

2.1 USA, SINGAPORE AND INDIA: A LOOK AT THE SUBSTANTIVE PROVISIONS

2.1.1 United States: Agreements with anti-competitive objectives have always been a major focus of antitrust enforcement in the US, and buyer cartels have always been treated just as seller cartels. The Anti-trust laws in US with regard to cartels, are contained within two major federal laws: The Sherman Anti-Trust Act and the Federal Trade Commission Act. These provide for a multi-framework enforcement agency, comprising of The Department of Justice ('DoJ') an executive branch and Federal Trade Commission ('FTC') which is an administrative

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[74] *Carstensen C.P. (2010). Buyer Cartels Versus Buying Groups: Legal Distinctions, Competitive Realities, and Antitrust Policy. William and Mary Business Law Review, 1, 12.*

[75] *Carstensen C.P. (2010). Buyer Cartels Versus Buying Groups: Legal Distinctions, Competitive Realities, and Antitrust Policy. William and Mary Business Law Review, 1, 7.*

[76] *Barik, P. (2020, April 20). India: Buyer's Cartels Have Now Taken the Driver's Seat In India. Mondaq. https://www.mondaq.com/india/cartels-monopolies/919282/buyer39s-cartels-have-now-taken-the-driver39s-seat-in-india*

[77] *Barik, P. (2020, April 20). India: Buyer's Cartels Have Now Taken the Driver's Seat In India. Mondaq. https://www.mondaq.com/india/cartels-monopolies/919282/buyer39s-cartels-have-now-taken-the-driver39s-seat-in-india*

agency(Satyam Pal Singh, 2020). Being the oldest federal anti-trust law, the Sherman Act, 1890 is the edifice upon which cartel jurisprudence in the US is built upon. Section 1 prohibits "every contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce among the several states or with foreign nations." The three named forms of conduct under Section 1 when read together can be seen to embrace a single concept: outlawing of any anti-competitive restraints (Global Legal Group, 2021) Prima facie, it appears that this section prohibits all kinds of agreement having any restraint on trade but the interpretation given by the Supreme Court of US narrows the prohibition and provides us with the two rules, 'per se rule' and the 'rule of reason'. While penalizing 'unreasonable restraints', it must be noted that neither of these rules makes any distinction between cartels from buyer as well as seller side . Horizontal agreements with the intent of price fixing, restriction of output, bid-rigging, allocation of customers geographically are found to be per se illegal regardless of the economic rationale and consequences, as these activities are assumed to restrict competition and market output . Other agreements are to be judged by a rule of reason approach. This approach appreciates the differences between restraints which are anti-competitive in nature and harmful to consumers versus those restraints that further competition and are in the consumer's best interests. Several factors are to be considered in a case under this rule. Intent of conduct and effect of restriction, position of defendant in market, market conditions, barrier to entry, objective justification and procompetitive effects of the conduct, if any must be weighed. The Sherman Act attracts both civil and criminal liability in case of cartels falling under per se rule. In contrast, the FTC Act only attracts civil suits under Section 5(a)(Global Legal Group, 2021). The crucial aspect of Section 1 Sherman Act is presence of an agreement illegal in nature which need not to be written and could be made verbally, with a wink or nod, where only the proof of "conscious commitment to a common scheme" is material for proving the presence of an agreement. Certain exceptions are also granted under these federal laws viz., a) state action exemption, activity undertaken under government policy; b) collective bargaining under labor exemption; c) conduct to influence government; d) Antitrust suit based on tariffs filed with a regulatory agency; and e) limited implied exemption from laws regulating sale of securities(Global Legal Group, 2021).

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[78] *Barik, P. (2020, April 20). India: Buyer's Cartels Have Now Taken the Driver's Seat In India. Mondaq. https://www.mondaq.com/india/cartels-monopolies/919282/buyer39s-cartels-have-now-taken-the-driver39s-seat-in-india*

[79] *Competition Law Review Committee. (2019). Ministry of Corporate Affairs, Government of India. https://www.ies.gov.in/pdfs/Report-Competition-CLRC.pdf*

[80] *The United States v. Socony-Vacuum Oil Co., 310 U.S. 150, 223 (1940). Under the Sherman Act a combination formed for the purpose and with the effect of raising, depressing, fixing, pegging, or stabilizing the price of a commodity in interstate or foreign commerce is illegal per se.*

[81] *Satyam Pal Singh. (2020). Per Se Rule Vis-À-Vis Rule of Reason: A Comparative Study Of Competition Laws Of India And The U.S., MONDAQ, at https://www.mondaq.com/india/antitrust-eu-competition-/904530/per-se-rule-vis-vis-rule-of-reason-a-comparative-study-of-competition-laws-of-india-and-the-us*

[82] *Global Legal Group. (2021). International legal business solutions | GLI. GLI - Global Legal Insights - International Legal Business Solutions. https://www.globallegalinsights.com/practice-areas/cartels-laws-and-regulations/usa*

[83] *Northern Pacific Railway Co. v United States and Others 356 U.S. 1(1958).*

[84] *National Collegiate Athletic Association v. Board of Regents of University of Oklahoma, 468 U.S. 85, 99 (1984).*

[85] *Continental T.V. Inclusive v. GTV Sylvania Inc., 433 U.S 26, 49(1997).*

[86] *Global Legal Group. (2021). International legal business solutions | GLI. GLI - Global Legal Insights - International Legal Business Solutions. https://www.globallegalinsights.com/practice-areas/cartels-laws-and-regulations/usa*

2.1.2 Singapore: Under the Competition Act of 2004, Chapter 50B is the principal law governing the competition regime in Singapore with the foremost objective of promoting efficient functioning of its markets and to enhance the competitiveness of their economy (Allen & Gledhill et al., 2016) . Section 34 specifically deals with prohibition of agreements or concerted practices or decisions, which have the object or effect of prevention, distortion or restriction of competition, between undertakings or associations of undertakings. The prohibition under this Act also extends to agreements made outside the country insofar as their cartel conduct restricts competition in Singapore. The type of agreements prohibited have been categorized broadly into Hard-core cartels and other agreements, on the basis of the same rule-oriented approach as followed in the US. Whenever the object of the agreement is purely based upon price fixing, bid-rigging, output limitation or market sharing, such agreements are recognized as hardcore cartels and are per se infringement of Section 34, as such objects would definitely have an Appreciable Adverse Effect upon Competition (AAEC) and falls under high enforcement priority for the Competition Commission of Singapore (CCS). On the other hand, rule of reason approach is to be adopted in agreements having presence of elements, like, joint purchasing or selling, sharing information or exchanging price information or non-price information, fixing trading conditions, restricting advertising, setting technical or design standards, etc. As such agreements could have AAEC, while applying this reasoning approach again certain factors are to be considered when deciding whether such agreement have AAEC, those are, market shares of parties to the agreement, market power, substance of agreement, structure of market(s) to which agreement aims at and structure of the buyer's market. The general rule under competition jurisprudence of Singapore is to impose penalty upon an association of undertaking, independent and additionally of its members where the concerted practice is found to be in contravention and creating an AAEC.

2.1.3 India: The competition regime in India shifted to the modern Competition Act, 2002 from the "command and control" approach under the Monopolies and Restrictive Trade Practices Act, 1969. Section 3(3) of the Act of 2002 focusses on four categories of horizontal agreements on the presumption of AAEC, such presumption being rebuttable. But unlike the US where no distinction is carved out between seller and buyer cartels, India's competition law while defining the term 'Cartel' under Section 2(c) ignored the effects of buyer power upon the market. This explains the conspicuous absence of the term 'buyers' in the existing definition of cartel and implies the failure of policymakers to expressly recognize the possibility of buyer's cartels. Competition Commission of India(CCI) in its various decisions have cleared out that scope of Section 3 would take into account both sellers' and buyer's cartels. Imposition of the liability buyer cartels is again based upon the per se and rule of reason approach. Accordingly, the CLRC

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[87] *Monsanto CO. v Spray-Rite Svc. Corp., 465 U.S. 752,768 (1984).*

[88] *Global Legal Group. (2021). International legal business solutions | GLI. GLI - Global Legal Insights - International Legal Business Solutions. https://www.globallegalinsights.com/practice-areas/cartels-laws-and-regulations/usa*

[89] *Allen & Gledhill, Shardul Amarchand Mangaldas, Anderson Mori & Tomotsune, Jun He law Offices, Kim & Chang, & Slaughter & May. (2016, November). https://www.slaughterandmay.com/media/2536308/cartel-regulation-in-asia-and-the-eu.pdf. Slaughter and May. https://prodstoragesam.blob.core.windows.net/highq/2536308/-cartel-regulation-in-asia-and-the-eu.pdf*

[90] *Under section 2(1) of competition act, 2004, "undertaking" means any person, being an individual, a body corporate, an unincorporated body of persons or any other entity, capable of carrying on commercial or economic activities relating to goods or services.*

report suggests the inclusion of the word "buyer" under the definition of "cartels" to prevent inconsistency and confusion in interpretation of law, which in turn have been incorporated in the Competition (Amendment) Bill, 2020. Also, Section 3(5)(i) permits parties to put up reasonable restrictions, necessary for protection of their Intellectual Property Rights, but a restrictive approach is adopted by CCI towards this exception.

2.2 LENIENCY REGIME

Leniency cooperation is an investigative tool used in various countries' antitrust laws, designed to encourage self-reporting of anti-competitive practices by cartel participants by giving evidence for the same in exchange for immunity or relaxation from penalty. In the US, it has been proclaimed as the most important tool over the last 26 years(Department of Justice Applauds Congressional Passage Of, 2020). Providing evidence of conspiracy is the pre-requisite to secure the benefits of this regime which works in conjunction with other substantive provisions to create a race between cartel members.

In the US, the first informant only would be given immunity from criminal prosecutions while the subsequent informants will only be qualified for fine reductions and other benefits. A similar path is followed in Singapore, which has a well-defined leniency regime providing for different levels of immunity, reduction of financial penalty ('First to Door' and subsequent applications)(Allen & Gledhill et al., 2016) and maintaining anonymity. At the same time, it doesn't protect the informant from third party private action, competition authorities outside Singapore from disclosure to other regulators and defendants or other consequences of infringing the law. Indian competition law with regard to leniency cooperation is governed by Section 46 of the Act read with the 'Lesser penalty Regulations'. These are substantially very similar to the provisions contained in the regimes of the US and Singapore. However, in January 2017 CCI passed its first decision on leniency application .

2.3 SCREENING

A screen is an inspection which needs to be fulfilled in order to identify the existence of any cartelistic behaviour to be established. It should generally be able to filter out both the implications of collusion and ordinary relationship between key market variables. Generally, it is of two types. A structural screen lays emphasis on identifying collusion based on factors such as lack of competitors, homogenous products, stability of demand etc. Some globally recognized structural factors are high concentration due to a smaller number of players, high entry barriers, frequent interaction amongst competitors, price transparency, predictability of demand, homogeneous nature of products, mature industry with low levels of innovation, symmetry of market participants in terms of market shares, capacities, etc. and high buyer power (Competition Commission Of India, 2018, 30). Another is an empirical screen, which uses empirical industry data to search for improbable events, inclusive of assessing the behaviour of firms in one particular area with those in other comparable areas.

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[97] *In Re: Cartelization in Respect of Tenders Floated by Indian Railways for Supply of Brushless DC Fans and other Electrical Items, (Case No. Suo Moto 03 of 2014) Order dated 18 January, 2017.*

[98] *Competition Commission Of India (2018). Cartel Enforcement And Competition Icn Special Project. https://www.internationalcompetitionnetwork.org/wp-content/uploads/2019/11/SP_Cartel2018.pdf*

Screens can be used in following circumstances, – first, in the absence of specific information, to identify sectors and industries which might be prone to cartelisation and second, in the presence of specific information, to determine whether the behaviour on display is likely to be due to underlying collusion. There are certain sectors that seem more prone to collusion. Thus, pro-active investigations by authorities in sectors where screens show high probability of cartel coupled with defined leniency regime will act as a one of the most effective tools with antitrust regulators for the purpose of detecting cartels. Use of data like, market shares, bids, production details, prices, etc. serves to identify patterns which are of anti-competitive character(Competition Commission Of India, 2018, 32)

2.4 SETTLEMENT MECHANISMS

The regulatory agencies accept voluntary undertakings or assurances from guilty parties to stop any anti-competitive practice of their own. Violation of antitrust federal laws attracts both criminal and civil liability. Thus, for both actions, a settlement procedure is set up. In the US, for civil action a company or an individual can choose to settle either with the DoJ or FTC by consent decree, wherein the party agrees to cease and desist itself from the unlawful agreements and to restore pro-competition activities. As for the criminal actions the parties can voluntarily negotiate with the DoJ for pleading guilty rather than to face trial. Such bargaining provides certain benefits such as finality, and reduced criminal penalties. Also, scope of plea bargaining in criminal actions is subject to negotiations between parties making the law flexible for adjustment on a case-to-case basis. Determination of fines is subject to the volume of affected commerce coupled with the company's assigned culpability score (concerning company size, high-official role, cooperation and acceptance of responsibility). Assistance given to DoJ during the investigation is also taken up for consideration. No provisions regarding settlement are provided under Competition Act of Singapore or Competition Commission of Singapore (CCS) guidelines on formal settlement procedures for cartel activity. Nonetheless, in practice CCS has accepted voluntary assurances from undertakings to cease and desist from agreements in violation of Section 34 of the Act. As of now, the competition act of India has no provisions for settlement nor has any settlement been accepted in practice by the CCI (A. N. Singh, 2020).

CONCLUSION

As demonstrated previously, buyer's cartels pose a significant threat to healthy competition in the economy. A simple inclusion of substantial provisions into the law which outlaws buyer's cartels is therefore insufficient to effectively monitor and investigate buyer's groups in the garb of buyer's cartels. Hence, the competition regime of India needs to incorporate the global best practices as followed around the world by competition watchdogs.

The use of statistical screens has been employed extensively by the CCI for unearthing evidence in the course of cartel investigations. This is a practice followed by regulators globally. By its own admission, the CCI has not employed the same for monitoring industries prone to

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[99] *Competition Commission Of India (2018). Cartel Enforcement And Competition Icn Special Project. https://www.internationalcompetitionnetwork.org/wp-content/uploads/2019/11/SP_Cartel2018.pdf*

[100] *Singh, A. N. (2020, January 16). The need for settlements and commitments under the competition act, 2002. Anti-Trust/Competition Law - India. https://www.mondaq.com/india/cartels-monopolies/883880/the-need-for-settlements-and-commitments-under-the-competition-act-2002*

cartelization, till date (International Competition Network, 2018) As a precautionary measure statistical screens should be rigorously adopted by the CCI. This is a much-needed step which will make use of statistical tools to identify cartelistic behaviour among buyer's groups.

Certainly, the prominent focus upon "consumer" interest, however defined, has led to excessive tilt on the selling side of the market. Thus, it is time to strike a balance and emphasize more fully on the conduct of the buyer side. Studies shows that buyers' cartel are in fact more than sellers' cartel. Inclusive of the recommendations given by Competition Law Review Committee (CLRC), 2019 which proposes to make buyers' cartel per se illegal, Indian antitrust jurisprudence lacks in various other significant tools. First, the law and practice on leniency regime is in its infancy. This is indicated by the fact that between 2016 to 2019, there have been a total of seven matters in which a lower penalty was imposed under the Lesser Penalty regulations (Pai, 2020) . Moreover, CCI treats the leniency applicant as a "guilty" party and naturally is in some way aggressive in dealing with such applications(Allen & Gledhill et al., 2016). Similarly, CCI has in some cases extended the benefits of leniency regime even to non-applicants(Singh & Swami, 2019) This trend if continued will jeopardize the leniency regime in India, the substantive provisions of which are at par with the leading regimes globally. Therefore, this practice should be discontinued . Second, the settlement mechanism as of now is not introduced in India and is neither recommended in CLRC, 2019. Such mechanism allows the government and regulatory agencies to save resources which in turn could be allocated towards other enforcement priorities and can at the same time impose liability upon the company or individual charged with violation of the Indian Antitrust laws. Legislations must be enacted in this direction to equip the CCI with a robust settlement mechanism. Lastly, it must be stated that none of these solutions will serve the purpose if implemented piecemeal. To address the issue of buyer power, the CCI needs a troika composed of statistical screening, a leniency regime and settlement mechanisms all of which act as force multipliers to create an effective competition regime in the country.

About the Authors:

1. Deeptanshu Chandra is an LLM candidate at the National Institute of Securities Markets. He is specializing in Investment and Securities laws. His areas of interest include regulatory issues

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[101] *International Competition Network. (2018). Cartel enforcement and competition icn special project. Competition Commission of India. https://www.internationalcompetitionnetwork.org/wp-content/uploads/2019/11/SP_Cartel2018.pdf*

[102] *Pai, V. (2020, November 2). Lesser penalty regulations & confidentiality. Lexology. https://www.lexology.com/library/-detail.aspx?g=937a0ea6-cd17-4e22-aa8d-bb510c668828*

[103] *Allen & Gledhill, Shardul Amarchand Mangaldas, Anderson Mori & Tomotsune, Jun He law Offices, Kim & Chang, & Slaughter & May. (2016, November). https://www.slaughterandmay.com/media/2536308/cartel-regula-tion-in-asia-and-the-eu.pdf. Slaughter and May. https://prodstoragesam.blob.core.windows.net/highq/2536308/-cartel-regulation-in-asia-and-the-eu.pdf*

[104] *Singh, N., & Swami, S. (2019, April 8). Evolving leniency regime under the Indian competition law. Oxford Law Facul-ty.https://www.law.ox.ac.uk/business-law-blog/blog/2018/08/evolving-leniency-regime-under-indian-competition-law*

[105] *Empirical analysis has shown that a strong leniency regime coupled with statistical screening methods has proven to be a very effective counter against cartelization. For more on this, see CCI, supra note 2, at 29-30.*

pertaining to the securities market, competition and corporate finance. Prior to this, he has worked as an advocate representing clients before the Hon'ble Delhi High Court, The National Company Law Tribunal, The Central Administrative Tribunal and other judicial fora in and around the Delhi NCR region.

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NISM STUDENT'S EXTRA CURRICULAR ACTIVITIES

E-Cell : 2020-21

NISM's Entrepreneurship cell has been established in the month of November last year (2020) with a freshmen orientation session conducted by Mr.Biharilal Deora introducing E cell to our college and taking a very informative session on Entrepreneurship activities in the field of securities markets.

We at NISM have further organised various sessions/events to foster the spirit of entrepreneurship amongst our students. Given below are few such events which were conducted by our E-cell:

1) Identified a problem near us and conducted a discussion about the solution. (part of the IIT Bombay National Entrepreneurship Challenge)

2) As the student committee of NISM's E-cell we have also worked on putting up our e-cell's presence on the Social media platforms and also uploaded few interesting sessions on our youtube platform.

3) A thought provoking speaker session on " IS COLLEGE THE RIGHT TIME TO START-UP" was conducted by our very own Alumni Pranjal Kamra who is the CEO and founder of Finology Ventures.

4) A fun and engaging quiz about entrepreneurship, business, and finance was held, which drew a lot of interest from the our students.

5) An other intriguing session on Entrepreneurship opportunities in Algo trading was conducted by Mr. Hrishabh Sanghvi Sir.

6) Mr. VR Narasimhan sir, our Dean, had the honour of serving as a mentor and judge for our Idea Premier League competition, in which students developed outstanding startup ideas. The second round of the IPL i.e Idea Premier League 2.0, will be held soon, and we intend to have our Junior batch participate in it.

7) Mr. Rahul Majethia recently held a speaker session on potential entrepreneurship opportunities in the Mutual fund sector.

We're also excited to announce that we secured 9th place in the National Entrepreneurship Challenge hosted by IIT Bombay's E-cell.

We're also excited to welcome our new class of students this year, and we're looking forward to hosting and conducting more events, as well as participating in exciting entrepreneurial activities that benefit NISM students.

We are thankful to Sahil Malik sir and Meraj Inamdar sir for their motivation, guidance and support during E-cell activities.

Dinesh Nagarjurna
E-CELL Student Coordinator

E-Cell : 2021-22

Hello bulls and bears!!

My name is Adwaita Potnis, and I am studying PGDM SM at NISM, 2021-23.

I have done my graduation in BBA in Finance and Entrepreneurship so my inclination has always been in the mix of both that is Entrepreneurial Finance and Investment banking. Well that brought me to NISM seeking a niche course in the world of Finance. NISM not only gave me knowledge about the securities markets but also promoted my overall growth by the means of extracurricular activities. I am a part of ECELL NISM, as a Leader for the Junior batch.

The activities that we have undertaken so far this year are as follows:

E-CELL Orientation, We have conducted Speaker session by Mr Vivek Bajaj on "Scope of Entrepreneurship in Securities Markets". Created awareness about Entrepreneurship in schools via interactive sessions. We have been a part of NEC challenge by ECELL, IIT Bombay and we have started a Business Conclave series where for its first session we had a speaker session by Mr Rishabh Gill on "How to Validate Your Idea". ECell is very active on social media and regularly imparts knowledge about Securities Markets and Entrepreneurship and sees an active participation from the students. Every Saturday sees various challenges on our Instagram Page.

ECell has helped me evolve as a better leader it has taught me the skills of team building , it has taught me about event planning , interviewing , time management , has taught me the art of dealing with people and has helped develop my communication skills.

I am grateful to NISM and E-cell faculty mentors for giving me this opportunity.

Adwaita Potnis
E-CELL Student Coordinator

Heramb Patil

PGDM Student

Won CMT Asia Pecific Internship Challenge 2021

NISM recognize as the CMT association academic partner in 2021. The very first year of the association 7 NISM students passed the CMT Level 1. Following are students who passed the Level 1 in November 2021 CMT exame.

Sakshi Dhakre

Swapnil Kaldate

Soumyabrata Paul

Aditya Kumar Thakur

Vineeth lambu

Nikhil Chandra Reddy Gayam

Heramb Patil

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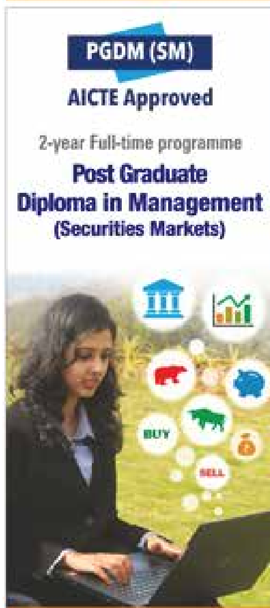

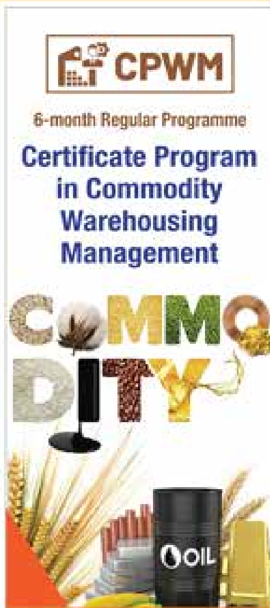

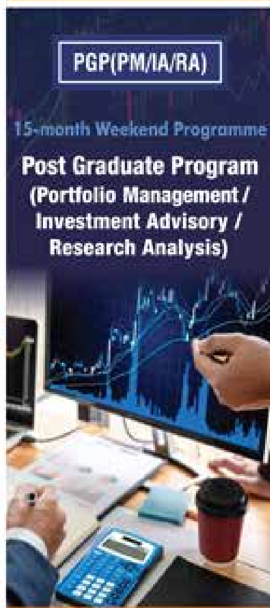

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