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TIRUPUR BRANCH OF SICASA

SICASA OFFICE BEARERS 2023 - 24	
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Your views / suggestions / comments are Welcome. Kindly send your Contributions in the form of articles to tiruicai@gmail.com

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Dear Esteemed CA Students,

It is with great pleasure and pride that I extend my heartfelt congratulations to our newly qualified Chartered Accountants who successfully cleared the examinations in the month of December. Your accomplishment is a testament to your hard work, dedication, and unwavering commitment to excellence.

The journey to becoming a Chartered Accountant is no small feat, and you have navigated through the challenges with resilience and determination. Your success is not only a personal triumph but also a significant milestone for our institute. As you step into the professional realm, I want to assure you that CA STUDENTS is here to support and guide you in your continued growth and success.

This achievement is a culmination of years of rigorous study, practical training, and the invaluable guidance of our esteemed faculty. As you embark on your professional journey, remember that learning is a lifelong process, and every experience, whether success or challenge, contributes to your growth.

I encourage you to uphold the highest ethical standards and professional integrity as you take on new responsibilities in your career. The Chartered Accountancy profession is built on trust, and your role as a qualified CA comes with the responsibility of maintaining that trust in the financial world.

As part of the CA STUDENTS family, you are not just professionals but ambassadors of excellence. Your success inspires the next generation of aspiring CAs, and I am confident that you will continue to make us proud in your future endeavors.

Once again, congratulations on this remarkable achievement. May your journey be filled with continued success, meaningful experiences, and opportunities for further growth.

As we bid adieu to 2023, let's take a moment to reflect on the enriching experiences and learning opportunities the month of December brought us at CA STUDENTS.

Students Talent Search 2023 (Held on 09th Dec): We kick-started the month with an exhilarating event, the Students Talent Search 2023, held on the 9th of December. It was heartening to witness the incredible talent showcased by our students. This event not only celebrated individual brilliance but also fostered a sense of healthy competition, pushing each participant to strive for excellence.

Half-Day Workshop on GST Annual Returns (09th Dec): On the same day, we conducted a half-day workshop focused on the critical topic of GST Annual Returns. The session was led by the esteemed CA. Sivakumar P, whose insights and expertise illuminated the complexities of the subject. It was a valuable learning experience for all participants, equipping them with practical knowledge essential for their professional journeys.

Orientation Programme Batch No. 53 (11th Dec - 25th Dec): The month saw the successful completion of Orientation Programme Batch No. 53, conducted from the 11th to the 25th of December. This comprehensive program aimed at providing our students with a strong foundation and orientation to the world of accountancy. The engagement and enthusiasm displayed by the participants were truly commendable.

Advanced ITT Programme Batch No. 16 (13th Dec - 27th Dec): Simultaneously, Advanced ITT Programme Batch No. 16 unfolded from the 13th to the 27th of December. This intensive training equipped participants with advanced skills, preparing them to navigate the dynamic landscape of Information Technology in the field of accountancy.

Industrial Visit to NCC (26th Dec): Broadening our students' horizons, an industrial visit to NCC was organized on the 26th of December. This firsthand exposure allowed our students to witness the practical application of theoretical concepts, bridging the gap between classroom learning and real-world scenarios.

ITT Programme Batch No. 88 (28th Dec - 12th Jan): As the month drew to a close, we commenced ITT Programme Batch No. 88 from the 28th of December to the 12th of January. This program is designed to enhance technical skills, ensuring our students are well-equipped to meet the demands of the evolving professional landscape.

In conclusion, December was a month filled with diverse opportunities for learning, growth, and camaraderie. I extend my heartfelt appreciation to our dedicated faculty, staff, and, most importantly, our enthusiastic students, for making each event a success.

As we step into the new year, let's carry forward the momentum and commitment to excellence. Wishing you all a prosperous and fulfilling 2024!

Best wishes for a bright and prosperous future.

Thanks and Regards
CA Varatharajan M P,
SICASA Chairman,
Tirupur Branch of SIRC of ICAI.

SRILAWVANYA G
SRO0755037

INVESTMENT VEHICLES

In this article let us take a look into some of the investment vehicles that are trending right now!

MUTUAL FUNDS

What is a Mutual Fund?

Mutual fund is a financial instrument that pools money from different investors. The pooled money is then invested in securities like stocks of listed companies, government bonds, corporate bonds, and money market instruments.

Mutual funds give small or individual investors access to professionally managed portfolios of equities, bonds, and other securities. Each shareholder, therefore, participates proportionally in the gains or losses of the fund.

When an investor decides to invest in a mutual fund, they will ideally buy a part of the mutual fund. Like company shares, mutual funds are divided into fund units. Thus, to invest in a mutual fund, you should buy the fund units. Each unit will give you exposure to all the assets held by the fund.

Each unit is bought and sold at the prevailing Net Asset Value (NAV). It refers to the per-unit or per-share value of a mutual fund scheme. It is generally used as an indicator of the fund's overall performance. NAV is calculated at the end of each day. It is calculated by subtracting the mutual fund's liabilities and expenses from its total asset value and dividing the result by the number of outstanding units. It usually starts with ₹10 when an NFO (New Fund Offer) is launched.

How Do Mutual Funds Work?

Mutual fund investment is simple. You invest in a fund consisting of several assets. The mutual fund house takes care of the research, fund management, and market tracking. This makes the mutual fund a highly popular investment option for all types of investors.

An Asset Management Company (AMC) manages the mutual fund. Mutual fund investment starts with the pooling of money from several investors. The pooled money is invested in a meticulously built portfolio of different asset classes like equity, debt, money market instruments, and other funds. Hence, you have the advantage of diversification. Additionally, your money is invested in instruments like Government bonds, that you wouldn't be able to afford individually. Also, the best part about mutual funds is that a team of experts along with the fund manager picks all the investments to build a portfolio. The investments are made according to the defined objective of the mutual fund. Expert and professional fund management help you outperform the returns of traditional investment vehicles like a bank savings account and fixed deposits. Also, as an investor, you are allotted units for your contribution to the pooled fund.

Open-ended funds

Open-ended funds are those mutual fund schemes in which you can invest or redeem at any time. The open-ended fund provides high liquidity as you can enter or exit the scheme anytime. Even after the New Fund Offer (NFO) period is over, you can purchase units of open-ended funds at the prevailing market Net Asset Value (NAV) on any business day.

Closed-Ended funds

In this type of funds, you can invest during the NFO period only. These schemes are issued for a fixed tenure. Once the NFO period is over, further investments in the fund are not allowed. Redemption happens after the funds get listed on the stock exchange. As per the SEBI rule, all closed-end funds must be listed on the exchange.

Types of Mutual Fund Schemes

Some of the popular types of Mutual fund schemes are as follows:

Equity funds

1. Multi Cap Funds: Multi Cap Fund – An equity mutual fund investing across Large Cap, Mid Cap, Small Cap stocks. Minimum investment in equity & equity related instruments–65% of total assets.
   (Large Cap: Top 100 companies in terms of market capitalization.
   Mid Cap: 101st- 250th companies in term of market capitalization.
   Small Cap: 251st company onwards in terms of market capitalization.)
2. Large Cap Funds: Large Cap Fund – An equity mutual fund predominantly investing in Large Cap stocks. Minimum investment in equity & equity related instruments of large cap companies – 80% of total assets
3. Mid Cap Funds: Mid Cap Fund – An equity mutual fund predominantly investing in Mid Cap stocks. Minimum investment in equity & equity related instruments of mid cap companies – 65% of total assets
4. Small Cap Funds: Small Cap Fund – An equity mutual fund predominantly investing in Small Cap stocks. Minimum investment in equity & equity related instruments of small cap companies – 65% of total assets
5. Sectoral Funds or Thematic: An open-ended equity scheme following the theme as mentioned. Minimum investment in equity & equity related instruments of a particular sector/particular theme – 80% of total assets
6. ELSS Funds: An open ended equity linked saving scheme with a statutory lock in of 3 years and tax benefit u/s 80C. Minimum investment in equity & equity related instruments – 80%

of total assets (in accordance with Equity Linked Saving Scheme, 2005 notified by Ministry of Finance)

Debt funds

1. Long Duration Fund: A debt scheme investing in instruments with Macaulay duration greater than 7 years. Investment in Debt & Money Market Instruments such that the Macaulay duration of the portfolio is greater than 7 years.
2. Short Duration Fund: A short term debt scheme investing in instruments with Macaulay duration between 1 year and 3 years. Investment in Debt & Money Market instruments such that the Macaulay duration of the portfolio is between 1 year – 3 years
3. Low Duration Funds: A low duration debt scheme investing in instruments with Macaulay duration between 6 months and 12 months. Investment in Debt & Money Market instruments such that the Macaulay duration of the portfolio is between 6 – 12 months
4. Ultra Short Duration Funds: An ultra – short term debt scheme investing in instruments with Macaulay duration between 3 months and 6 months. Investment in Debt & Money Market instruments such that the Macaulay duration of the portfolio is between 3 – 6 months
5. Overnight Funds: A debt scheme investing in overnight securities. Investment in overnight securities having maturity of 1 day
6. Gilt Fund: A debt scheme investing in government securities across maturity. Minimum investment in Govt securities – 80% of total assets (across maturity)
7. Fund of Fund's (Overseas/Domestic): A fund of fund is a mutual fund that invests in other mutual funds. Minimum investment in the underlying fund – 95% of total assets

EXCHANGE-TRADED FUNDS (ETFs)

ETF Meaning

ETFs are a sort of investment fund that combines the best features of two popular assets: They combine the diversification benefits of mutual funds with the simplicity with which equities may be exchanged.

What is an ETF?

An exchange-traded fund (ETF) is a collection of investments such as equities or bonds. ETFs will let you invest in a large number of securities at once, and they often have cheaper fees than other types of funds. ETFs are also more easily traded.

However, ETFs, like any other financial product, is not a one-size-fits-all solution. Examine them on their own merits, including management charges and commission fees, ease of purchase and sale, fit into your existing portfolio, and investment quality.

How do ETFs Work?

The assets that are underlying are owned by the fund provider, who then forms a fund to track the performance and offers shares in that fund to investors. Shareholders own a part of an ETF but not the fund's assets.

Investors in an ETF that tracks a stock index may get lump dividend payments or reinvestments for the index's constituent firms.

1. Equity ETFs

Equity ETFs are the most popular at present and they generally track Nifty 50 and its other variants. Some of the examples are DSP Nifty 50 ETF, ICICI Pru Nifty 100 ETF, Nippon India ETF Nifty Midcap 150, Motilal Oswal Midcap 100 ETF and Aditya BSL Nifty Next 50 ETF.

2. Bond ETF

Bond ETFs are typically designed to provide exposure to fixed income instruments like debentures and government bonds having various maturities. Bond ETFs combine the benefits of debt investments with the flexibility of stock investments and the simplicity of mutual funds. Examples of debt ETFs are government securities (G-Secs) and the Nifty Bharat Bond.

3. Commodity ETF

These ETF investments are meant to track the price of a commodity like gold, silver, oil, etc. For example, Nippon India GoldBeEs ETF gives you exposure to gold. They help you add commodity market exposure to your portfolio without directly owning the physical commodities.

4. Sectoral / Thematic ETF

A sectoral or thematic ETF is designed to replicate the performance of a particular sector. Kotak IT ETF, ICICI Prudential Nifty Auto ETF, Axis Banking ETF, SBI ETF Consumption, and Aditya BSL Nifty Healthcare ETF are few examples of such ETFs.

5. International ETFs

An international ETF gives investors the opportunity to invest directly in foreign companies. It tries to mirror the index of global markets or any country specific index. Examples are MOSL NASDAQ 100, HDFC World Index Fund, Mirae Asset NYSE FANG+ETF.

OPTIONS

What Are Options?

Options are a type of derivative, which means they derive their value from an underlying asset. This underlying asset can be a stock, a commodity, a currency or a bond.

An option is a contract to exchange an asset like a share of stock at an agreed-upon price in the future. There are always two parties to an options contract: One party creates the option—traders would say they "write" the contract—while the other side buys the option.

The party who writes the contract (option writer) is obliged to buy or sell the underlying stock, if necessary.

The party who buys the contract (option holder) gets the option to execute the contract in the future, but they have no obligation to complete the trade.

Understanding Options with Example

Let us take a look at a real-life example of an Options contract to understand it better:

On October 19, 2023, the TATAMOTORS 26-Oct-23 665 CE closed the day at ₹12.05 after gaining 72.14% on a single day! Sounds interesting, but what does this mean?

Let us understand this step by step:

- The term 'TATAMOTORS 26-Oct-23 665 CE' represents an Options contract on the Tata Motors Ltd. stock as the underlying asset.
- 26-Oct-23 means this option can be exercised only on October 26, 2023.
- CE stands for Call option of the European type. A call option gives you the right to buy the underlying asset on the expiry day at the agreed price.
- 665 stands for the strike price of ₹665 for the underlying Tata Motors stock.
- Therefore, if you buy this call option today, then this contract will allow you to buy the TATAMOTORS stock at ₹665 on October 26, 2023.
- In order to buy this option, you will have to pay an amount much smaller than ₹665. As of the closing of October 19, 2023, this amount was ₹12.05 per Options contract.

Types of Options

Option contracts can be of two types only, i.e. call option or put option.

Call option

A call option gives the holder/buyer the right to buy the underlying asset at a predetermined price on a given date. The predetermined price is called the strike price, and the given date is called the expiry date. In the example above, the Tata Motors stock was the underlying asset, ₹665 was the strike price, and October 26, 2023 was the expiry date.

Buying a call option is said to be a long call strategy while selling a call option is called a short call strategy. The price the buyer of an option pays to buy the contract is called the Options premium. In the above example, ₹12.05 was the option premium.

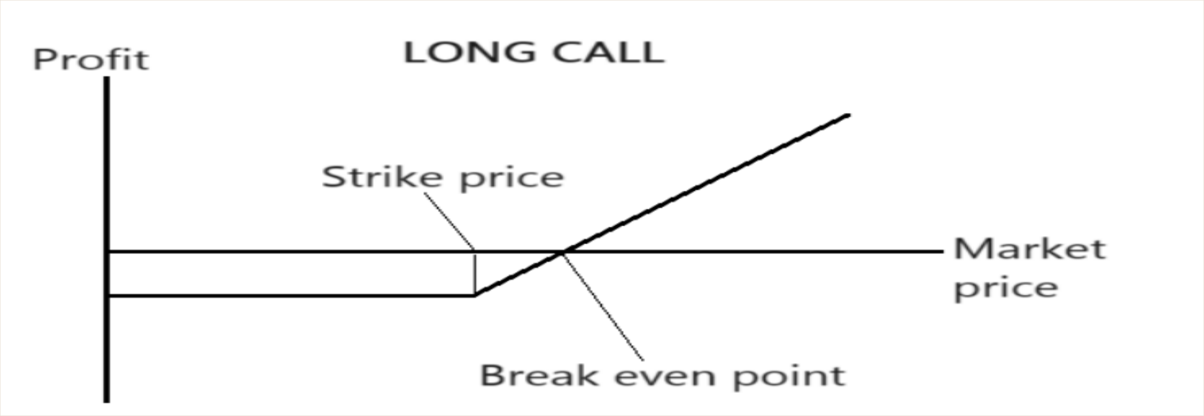

Fig.: Long call diagram

You may notice that there is a gap between the strike price and the break-even point. This is because, even after the spot price or market price surpasses the strike price, the premium or the price of the option that you paid must still be subtracted from the profit. Therefore, you make a profit overall only when:

Spot price – Strike Price > Premium paid

Put Options

A put option, on the other hand, gives the option holder/buyer the right to sell an underlying asset to the option seller. Like call Options, put Options also have an expiry day on which they can be exercised and a premium that must be paid to buy them. Buying a put option is said to be a long-put strategy, while selling a put option is called a short put strategy.

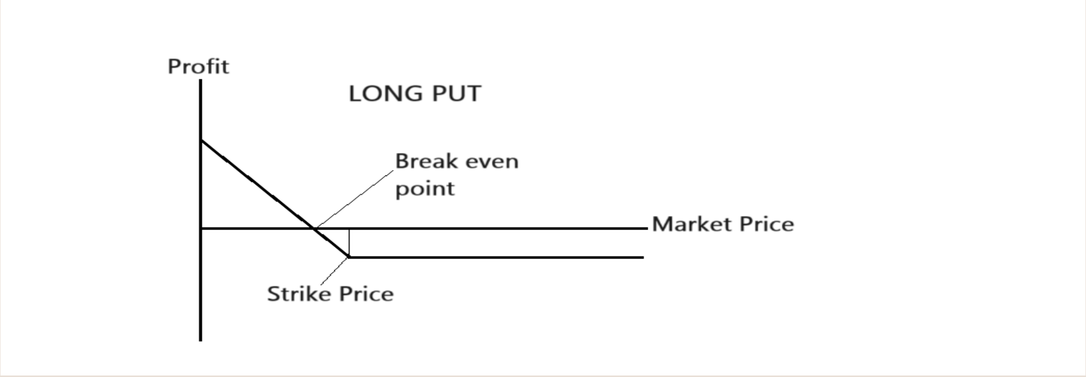

Fig.: Long put diagram

<u>How Do Options Work?</u>

In this example of a call option on Tata Motors stock at ₹665, expiring on October 26, 2023. If on October 26, the market price of the Tata Motors stock is ₹700, then the difference between the strike price and the market price, or spot price, is ₹35. You would probably want to exercise your option then. This is because you can exercise the call option and buy the stock at ₹665, despite the market price being ₹700. Then, you can sell the stock at ₹700 in the open market.

However, the price that you had already paid for each contract is ₹12.05. So, the profit per contract for you, assuming you bought the call option, would be ₹22.95.

On the other hand, all other things remain the same, had this contract been a put option, then there would have been no point in you exercising that option. This is because having the right to sell the Tata Motors stock at ₹665 is not useful if you can sell the stock at ₹700 in the open market already.

FUTURES

What Are Futures?

Futures refer to derivative contracts or financial agreements between the two parties to buy or sell an asset in a particular quantity at a pre-specified price and date. The underlying asset in question could be a commodity (farm produce and minerals), a stock index, a currency pair, or an index fund.

The futures contracts legally bind traders to transact an asset, irrespective of its current market price. These are useful for speculators and hedgers, who use price fluctuations to maximize profits or minimize losses. Furthermore, they can trade them at an already decided rate until the contract expires and settle their positions in cash or via physical delivery.

Trading Futures

Buyers and sellers sign derivative agreements at a fixed price to trade a particular quantity of an asset. Every contract comes with an expiry date (usually a month), and the parties need to settle the transaction before it. The price and expiry date of trading the asset in question remain unaffected by the fluctuations in the market. Both parties are legally bound to transact even if they incur huge losses.

For instance, a futures market trades wheat with a predetermined rate of $50 per unit. If the current wheat price is $70 per unit, the buyer will profit, but the seller will lose money. However, the seller would still be obliged to fulfil the contract terms. If the case is vice-versa, the buyer will have to buy the commodity at a high price despite its lower current market price

Example

Ketty, who runs a bakery, requires flour in bulk to prepare different types of cakes. The flour needed to prepare one cake costs her around $6, while she sells her cake for $10. Thus, her profit per cake is $4. However, she fears that if the flour price rises to $8 or $10, her profit percentage will decrease or become zero.

Thus, she opts for a derivative contract and books the flour in the required quantity for the same price per unit until the coming year. As a result, she knows that even if the value of the flour increases to $ 10 or $12, she can still buy it for $6 until the contract expires.

It's important to note the distinction between futures and options.

BASIS FOR COMPARISON	FUTURES	OPTIONS
Meaning	Futures contract is a binding agreement, for buying and selling of a financial instrument at a predetermined price at a future specified date.	Options are the contract in which the investor gets the right to buy or sell the financial instrument at a set price, on or before a certain date, however the investor is not obligated to do so.
Obligation of buyer	Yes, to execute the contract.	No, there is no obligation.
Risk	High	Limited
Advance payment	No advance payment	Paid in the form of premiums to the writer
Degree of profit/loss	Unlimited	Unlimited profit and limited loss.

Futures for Speculation

A futures contract allows a trader to speculate on the direction of a commodity's price. If a trader bought a futures contract and the price of the commodity rose and was trading above the original contract price at expiration, then they would have a profit. Before expiration, the futures contract—the long position—would be sold at the current price, closing the long position.

The difference between the prices would be cash-settled in the investor's brokerage account, and no physical product would change hands. However, the trader could also lose if the commodity's price was lower than the purchase price specified in the futures contract.

Speculators can also take a short speculative position if they predict the price of the underlying asset will fall. If the price does decline, the trader will take an offsetting position to close the contract. Again, the net difference would be settled at the expiration of the contract. An investor would realize a gain if the underlying asset's price was below the contract price and a loss if the current price was above the contract price.

Futures for Hedging

Futures can be used to hedge the price movement of the underlying asset. Here, the goal is to prevent losses from potentially unfavourable price changes rather than to speculate. Many companies that enter hedges are using—or in many cases producing—the underlying asset.

For example, corn farmers can use futures to lock in a specific price for selling their corn crop. By doing so, they reduce their risk and guarantee they will receive the fixed price. If the price of corn decreased, the farmer would have a gain on the hedge to offset losses from selling the corn at the market. With such a gain and loss offsetting each other, the hedging effectively locks in an acceptable market price.

THANK YOU

PHOTO GALLERY

STUDENTS TALENT SEARCH 2023 WAS HELD ON 09TH DEC

STUDENTS HALF DAY WORKSHOP WAS HELD ON 09TH DECEMBER

TOPIC : ON GST ANNUAL RETURNS | SPEAKAR : CA. SIVAKUMAR P

ORIENTATION PROGRAMME BATCH NO. 53 WAS HELD FROM 11TH DEC TO 25TH DEC

ADV. ITT PROGRAMME BATCH NO. 16 WAS HELD FROM 13TH DEC TO 27TH DEC

INDUSTRIAL VISIT WAS HELD ON 26TH DEC

ITT PROGRAMME BATCH NO. 88 WAS HELD FROM 28TH DEC TO 12TH JAN