

# SMALL COs CAN GO BIG BEYOND FDs

*SMEs have become the backbone of the economy, accounting for 17% of the GDP. But they still shy away from parking funds in instruments that can maximize their post-tax returns...*

Partha Sinha | TNN

Small and Medium Enterprises, commonly known as SMEs, play a very important role in our economy. According to an SME trade body, there are about 3 crore SMEs in India, accounting for about 45% of our industrial output and 40% of our exports, translating into about 17% of India's GDP. And this number is estimated to rise to 22% this year.

Given the size and nature of their business, most SMEs don't see much of free cash that can generate higher post-tax returns by investing judiciously. Even if some have some cash to deploy for the short term, surprisingly, most keep them in bank fixed deposits (FDs) that can't maximize their post-tax returns, fund industry officials say.

"In most cases that I have seen, SMEs usually keep their money in current accounts, and whatever little bit of money they have that they can invest, they keep in bank FDs," a top official at a leading mutual fund house says. "The knowledge that post-tax returns on bank FDs are much less than what they can earn by investing in liquid and liquid plus funds, and fixed maturity plans (FMPs) of mutual funds is also very low. Most don't know that there are mu-

tual fund schemes that can help them earn more," the official adds. The official further points out that liquid funds can generate about 8-12% higher post-tax returns than what FDs can.

tax returns. "MFs give higher returns by investing in little more risky assets," Dang says.

As a money manager with an SME, one needs to keep in mind three things: Liquidity, safety and return, according to Rajesh Kumar Dang, VP (finance) and company secretary, Majestic Auto. While bank FDs offer the highest safety, they lack in liquidity and post-

It should be pointed out here that one should not expect the current high levels of yield as a given for these schemes. In the

current high interest rate scenario, one can get yields as high as 11.5% by investing in liquid funds. But if one looks at historical yields in the past few years, the lowest yield was about 3.5%. The yields in these schemes are purely driven by the prevailing interest rate levels. Another point SMEs should keep in mind while looking at mutual fund schemes for better treasury management is that while liquid funds are as good as bank FDs, which can be redeemed to get money as and when required, FMPs are instruments in which funds are locked in for the duration of the scheme.

But on the liquidity factor, MF schemes score over FDs, in addition to the ease of service. "Just one call to a fund house is enough for them to send people to collect the cheque from us. And we can redeem our investments at less than a day's notice," says Dang, who has been in the industry for over 25 years.

There are some taxation issues also. SME officials managing money for their companies said that these companies can look at liquid as well as liquid plus funds for better post-tax returns, instead of keeping such funds in bank FDs. "Among these, some companies that have loan on their books should consider the growth option over dividend option while putting money in liquid and liquid plus funds," says Parag Prabhu, GM (finance & taxation), Supreme Industries.

## NEXT WEEK

The Union Budget, slated for March 16, is sure to throw up several new investment avenues as well as challenges for small investors. Next week, we will tell you how best to plan your investments after the budget proposals have been placed before Parliament.

This is because there is a section in the Income Tax Act, Section 14A, which is often invoked by the tax officials to deny the benefits of lower tax outgo from dividend income if the company also has loans on its books, SME officials say.

Subsequently, such treatment can lead to litigations also. "A company with no loans on its books does not need to bother about Section 14A. In that case, investing in the dividend option makes more sense," Prabhu says.

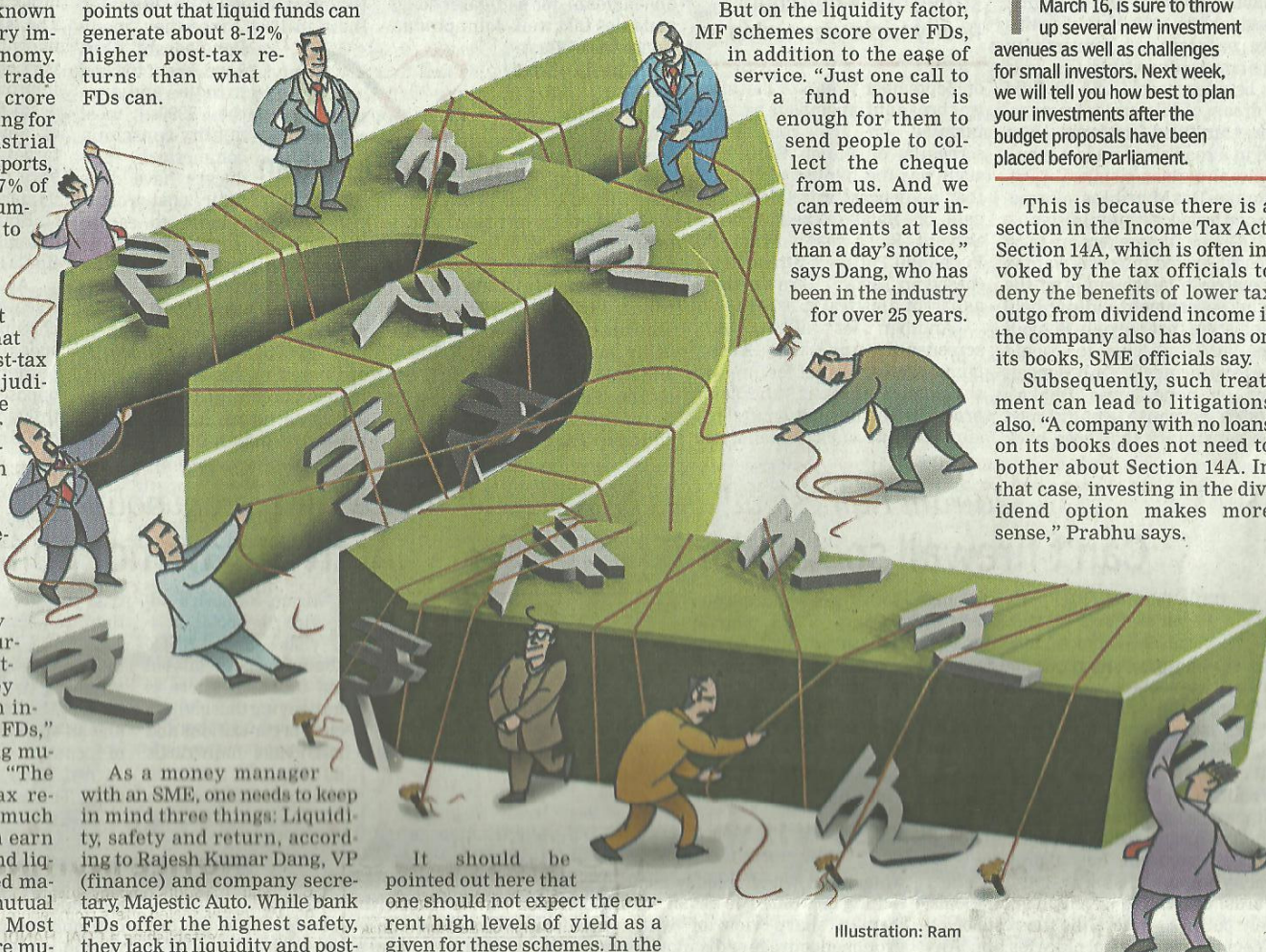


Illustration: Ram