by **Pragya Singh**

Two Per Cent

Eyeing company FDs? Do so cautiously: higher i

ARVIND Shah, Mumbai resident and all of 75, sent out an e-mail late one night this July. "Nothing happen. They'll keep giving promises for years but you will never get your money back." The despondent mail was sent to a handful of small investors who, along with Shah, had banded together about a year ago to try and wrest their hard-earned savings from various companies. "We had invested in fixed deposits floated by different companies, thinking we will get 1-2 per cent higher returns (than bank FDs). We felt FDs are safe. Now it seems we will get our money back only after we are dead," Shah told *Outlook*.

A similar story is recounted by Durga Dara, a 70-year-old export consultant in Hyderabad, who invested the joint family savings in company FDs. "As the karta of a Hindu Undivided Family, I invested on everybody's behalf. Not just I, my whole family was cheated," says Dara. Dara and Shah lost over ₹1 lakh each, getting neither the principal nor the promised interest on maturity. Shah had invested in FDs floated by Avon Corporation Ltd and Ankur Drug & Pharma Ltd, two lesser-known Mumbai-based companies. Dara had put his money in Avon and Birla Power Solutions, a Yash Birla concern.

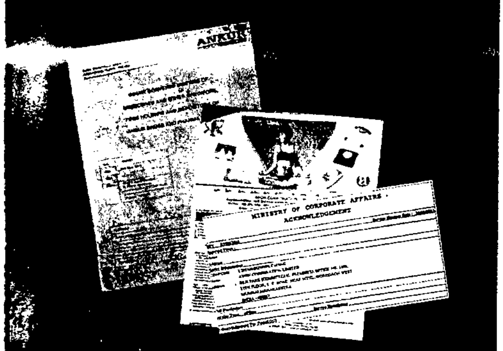
The amounts invested, and lost, by this group of investors range from ₹20,000 to ₹2 lakh each. Since January, over 100 similar cases have trickled into the Company Law Board (CLB). At the Mumbai bench of the CLB, the defaulting companies claimed, according to an official hearing the cases, that they "have no money". "They say they want to repay their investors but cannot due to business losses," says the official.

FDs have come back into favour in recent years. Earlier, the faster the economy grew, gold's parabolic jumps, real estate's windfall gains and the stockmarket boom added wind to investors' sails. "But today slow growth and inflation are nibbling at savings. Real estate is either out of reach or not as exciting as before. What else is there (except company deposits)?" asks Maneesh Kumar, MD, Burgeon Wealth Advisors. He lets on that most recent company FD bids have done "very well", fulfilling their subscription targets either well in time, or eventually meeting them, even when slow.

For instance, Jaypee Infratech, Jaiprakash Associates, Surya Roshni, Apollo Hospitals Enterprises, IVRCL, Sumeet Industries, Rasoya Proteins and Gitanjali Gems have entered the space recently. Real estate companies such as Unitech are advertising very aggressively in small towns, and are understood to be collecting a lot of money. Unitech—which had difficulties repaying FD holders in 2012 due to a severe cash crunch—refused to share any details of its present drive.

Investors are obviously biting—since 2010, around ₹10,000-12,000 crore is collected every year from the general public by companies. And this is only

APOORVA SALKADE



- With slow growth and inflation nibbling at savings, investors fall for the lure of FDs with higher interest
- Since 2010, ₹10,000-12,000 crore is collected every year from the general public via company FDs
- Few NBFCs, reputed companies have been successful with fixed deposits
- Difficult to identify good from bad for retail investor; recovering lost funds a struggle
- Govt, RBI discourage public deposits. FDs fall in no-man regulatory land.

Lost hope **Abhijeet Bhat, a Mumbai professional, can't recover his money**

or Bust

interest equals risk

an estimate, says Anil Chopra, group CEO and director of financial services firm Bajaj Capital Ltd. Neither the Union company affairs ministry (MCA) nor any other authority like the RBI keeps track of the size of company FDs. "There is no data on company FDs per se. We know the total savings in India, and that a major chunk of it goes into bank FDs, followed by a smaller proportion into company FDs," says Vidya Bala, head of research at FundsIndia, an investment advisory firm.

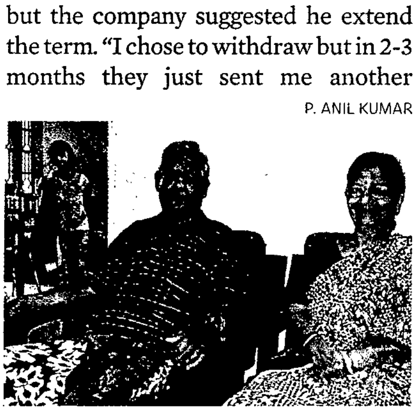
Regulatory controls are also few: a company must invite the public to its FD schemes through an advertisement, and it must limit such deposits to 25 per cent of its net worth. That's it.

"Company deposits are a favourite of senior citizens and retired folk because the small interest rate difference gives them 'an apple a day' kind of luxury," says Chopra. Often, though, the difference is not so small—even 3-4 per cent higher than bank deposits. Investors then tend to look upon the investment advisory firm to distinguish between chit funds, reputed NBFCs that give reliable returns and struggling companies hoping to stave off default or expand at any cost. "If company FDs alone were enough, nobody would put money in banks—that's something people should keep in mind before going for company FDs. People must stick to reputed companies," he adds.

A company's FD is really its unsecured debt. The man with an FD receipt in his hands is last in line if things turn sour. "An investor should consider the risks—he could get 1 or 2 per cent higher returns, or he could lose it all," says Shankar S., who runs Credo Capital in Chennai.

This, Ahmedabad's Kuljit Pal Singh learned the hard way. He fell for 'safe' FDs in 2011, after hearing about Avon's offer from HDFC Securities where he has an account. His FD matured in July 2012 but the company suggested he extend the term. "I chose to withdraw but in 2-3 months they just sent me another

P. ANIL KUMAR



The Daras They lost the joint family savings they invested in company FDs

No proper oversight authority keeps a database of company FDs or their performance. Regulations too are few.

renewal request," says Singh. He filed a complaint at the MCA's investor protection website on May 23, a year later. There, the matter stalled. "There has been absolutely no response from them," says Singh. Similarly, Abhijeet Bhat, a young professional in Mumbai, too put small sums into fixed deposits, only to find he can't recover even the principal.

Even distributors, when appointed, may have little experience with companies floating FD offers. Moreover, they are not liable for losses, even if they promote the offers. "Historically, company FD returns have been higher than bank FDs but in most cases companies ran away with the money. An investor has to be very wary of them," says Pranav Haldea, director, PRIME database. He says successful examples are few and far between. Ordinary investors rarely analyse a company's fundamentals—they go by their gut feeling, only to lose.

"Even ratings can mislead. The ordinary investor forgets to look at the debt rating even if he does check how the company itself is rated," says Bala. In case of default, investors end up having to approach the CLB—a lengthy criminal trial is not for everyone. "We were not paid back any money by Avon even though the CLB on March 15, 2013, ordered that all small depositors be paid back," says Shah. The CLB official in Mumbai said several attempts are usually made to convince the defaulting company to repay loans and allow it time to gather resources. Avon CMD Pankaj Saraiya and director Rupal Saraiya did not respond to calls.

At present, even the quantum of the problem is unknown. Neither the CLB nor the MCA maintains a database of company deposits and their performance. Progressively, curbs have been put on companies accepting deposits. That seems to be the only way to keep investors safe from smaller companies, or those with well-known problems. ◘