

April 2017

NRUPS 
Experience, Expertise, Execution



NRUPS NEWSLETTER

Disclaimer: This newsletter is based on data publicly available or from sources considered reliable. Nrups Consultants LLP (Nrups) does not claim it as accurate or complete. Hence, the reader/recipient should revalidate the information before relying on it. Information/Opinions expressed herein are as of date of this newsletter. Nothing in this newsletter constitutes investment, legal, accounting or tax advice or any solicitation, whatsoever. The reader/recipient assumes the entire risk of any use made of this data / newsletter. Nrups especially states that it has no financial or any other liability, whatsoever, to the reader/recipient of this newsletter. This newsletter is for the personal information only of the authorized recipient. This newsletter should not be reproduced or redistributed or communicated directly or indirectly in any form to any other person or published or copied in whole or in part, for any purpose.

TOPIC: FAMILY OFFICE & INVESTMENT OPPORTUNITIES

News Flash

1) Editorial.....	03
2) Family Office Overview.....	04
3) Family office investment instruments.....	06
4) Tax Implications.....	17
5) Conclusion.....	18
Sources & Reference About NRUPS	

Foundation Holdings, an investment firm floated by around six family offices, is aiming to deploy \$275 million over the next five years in healthcare, consumer and education sectors in India, it said in a statement.

(Source: www.vccircle.com)

Uncorn ventures has raised 40% of its ~100 Crore maiden fund from family offices.

(Source: www.pressreader.com.com)

Family offices, HNIs trim exposure to realty assets

(Source: www.economictimes.indiatimes.com)

Editorial

Dear Friends,

Hello Everybody!

Be it traditional family business owners or new generations entrepreneurs, many of them are successful in creating substantial wealth for themselves and for their inheritance. In order to grow this wealth and plan for succession, good Investment opportunities need to be sought. Hence, concept of Family Office business is emerging. The need for managing family wealth through a professional organization like family office is rapidly growing in India with various players such as banks, brokerage firms, asset management firms and investment bankers gaining a foothold in the Indian family office space.

India has registered tremendous growth in terms of the population of High Net worth Individuals (HNI's) and their wealth especially in last 10-15 years. It has also given a rise to new class of wealthy individuals known as Ultra High Net-worth Individuals which possess huge amount of wealth. Institutions and wealth managers provide many insights and help the HNIs and Ultra HNIs to invest their funds in the market with various options. Apart from many established firms which are already into this segment like Kotak bank, DSP Merrill lynch , BNP Paribas there are few boutique family office services firm which have emerged off late command a market share of around 47% in the family office space.

Some of the big business honchos have started their family offices in India such as Azim Premji's Premji Invest, Ranjan Pai & Mohandas Pai's Aarin capital, Ronnie Screwvala's Unilazer Ventures, NR Narayan Murthy's Catamaran Ventures, Ratan TaTa's family offices are case in point.

Hitherto, HNIs and Ultra HNIs were investing in traditional asset classes. Off late these assets classes are either giving a stagnant return or not matching with higher returns being offered by other emerging assets classes. So, family office started exploring new areas to generate higher returns. Even India's top business houses are seeking to diversify and increase their exposure to sectors such as technology and consumer internet that have delivered a number of billion-dollar companies in just few years. A wave of Indian family offices are lining up to invest in domestic startups, highlighting the growing attractiveness of the new economy ventures as viable alternative to traditional asset classes such as equity and real estate. Apart from equity and real estate, family offices are also backing venture debt, attracted by the shorter redemption periods unlike the 7-10 year lifecycles of venture capital funds.

There are various opportunities available for family offices to invest and spread its portfolio across the instruments which will be a blend of equity, debt, AIF's, start-ups etc. In this newsletter we have attempted to explain the concept of family office, its methodology and strategy to approach various investment opportunities for HNIs and Ultra HNIs so as to maximize their returns and wealth creation.

-Team Nrups



Family Office: Overview

Need of a Family Office:

Just as strategies and planning gives business a direction to operate and grow, similarly planning and strategizing personal assets helps in preserving and growing wealth. The concept of family office emerged to manage and grow the wealth of High Net-worth Individuals (HNIs) and Ultra High Net-Worth individuals (UHNIs). While this concept is comparatively old in United States and Europe, off late managing wealth through Family office has gained significant importance in India. The number of HNI's and UHNI's has grown tremendously over last decade. Many of them have set up their own family office to manage their wealth. Family office is not just the need of wealthy business owners but with growing salaries of professional and growth in their financial wealth from other sources, they too have also grown to a size which warrants the need of family office. Most of the family office hires professionals to manage their wealth. Some of them also act as an advisor to other HNI's. Apart from wealth management, family office can serve several functions. These include investment management, wealth transfer, succession planning, social responsibility initiatives, mentoring and risk management, managing tax & legal related issues and overall administration.

What is Family Office Service?

A family office service generally refers to an organization which provides private wealth management advice, fiduciary services and providing support services in tax planning etc. to Ultra High Net-worth Individuals (UHNIs) and High Net-worth Individuals (HNIs). Family office can be characterized as follow: 1) Single Family Office (SFO) and 2) Multi Family Office (MFO)

1) Single Family Office (SFO):

It is a firm which basically manages personal wealth of single wealthy family. There are around 90 professionally managed SFO's in India.

2) Multi Family Office (MFO):

This type of firms manages wealth of multiple smaller families. MFO's take wealth management mandates from smaller families by charging professional fees every year. There are close to 30 MFO's in India.

Functions of Family Office:

- It facilitates aggregation of cash flows generated by the family business in an optimized manner and utilization of such funds in Investment opportunities more holistically.
- It helps in achieving strategic objectives such as providing for contingencies like illness/accidents, the care of dependents, philanthropic pursuits etc.
- It also provides platform for synchronization of business considerations with personal succession goals and allows for developing mechanisms related to dispute resolution in context of younger generations.
- It also helps in managing liquidity through various options and establishing different analyzing tools and techniques of investments.

Investment Strategy of Family Office:

The Investment strategies of family office depends upon the risk and return objectives of the owner and various constraints like liquidity, time horizon, taxation, legal and other subjective considerations. Family offices invests in to various assets classes such as Equity, Fixed Income Securities, Real estate, NCDs, Mutual funds, Alternative Investment vehicles (such as PE funds, long-short funds), Start-ups ventures, growth oriented companies etc. Typically single family office invests 30%-40% of their wealth in equities –both private and publicly listed company. Within Equity, start-up investing is the latest fad amongst most family offices.

Many family offices are looking at angel investment, seed investment, and so on to participate in the start-up ecosystem. Allocation to this asset class has grown from 2-3% to around 15% now. Family office uses two type of investment route to invest in this space: 1) By Fund Manager with good track record for example VC Funds 2) By directly investing in startups through angel network or other sources. A group of family offices also come together to invest in these companies as a co-investment.

Investment objective of Family office:

Generally for the purpose of creating investment opportunities for family offices various structured products are designed which specifically suits their needs. These products can have a minimum ticket size of Rs 1 cr. The big corpus is pooled with the objective to generate higher returns for HNIs' than traditional instruments. This higher return justifies additional risk taken by family offices. Hence the objective of the family office investments is not to generate monthly income but to gain substantially on their Investment and build wealth over a period of time. Tax planning is also an important consideration in selecting Investment options. Apart from this, succession planning is also a key objective of establishing family office.

Following are the investments of large family offices:

- Narayan Murthy's catamaran ventures invested in over 100 start-ups
- Ratan Tata's famous investments in Snapdeal, CarDekho and Bluestone
- Azim Premji's family office Premji Invest has parked money in Flipkart, Myntra and Snapdeal
- Ajay Piramal's SFO has flushed funds in to Montane Venture, an early stage fund.
- Infosys co-founder SD Shibulal has invested in more than 700 apartments spread across Seattle and Bellevue area in United States.
- Infosys's co-founder Kris Gopalakrishnan's Investments in Start-up Village, Kerala
- Adani Family Office has investment in renewable energy

Family Office: Investment Instruments

As we have observed that there are various instruments available where family office spread their wealth and get maximum benefit of the returns generated by each instrument. Following are the instruments which we will explore in terms of its nature, returns generated, taxation. Broadly below are the categories of Investment instruments where family offices invests:

Equity	Debt	Other Investments	Co-Investments
<ul style="list-style-type: none">• Stake in Listed/Unlisted companies• Preference Shares• PE/VC funds• Mutual Funds (Equity Based)• Start-ups venture• PMS	<ul style="list-style-type: none">• NCDs• Bonds (Taxable and Taxfree)• Fixed Deposits• Mutual Funds (Debt, Gilt)• Fixed Maturity Plans in Mutual Funds• Inter Corporate Deposit	<ul style="list-style-type: none">• Alternative Investment Fund I, II & III• Real Estate• REIT• InvIT• Commodities• Gold	<ul style="list-style-type: none">• Co-Investments with AIF• Co-Investment with Start-ups

Equity:

- **Stake in Listed/Unlisted Companies: -**

Many HNIs and Ultra HNIs invest in the listed and unlisted space as strategic investment so as to derive maximum mileage over a longer time horizon. This segment also includes start-ups and growth stage companies. Long term investment in these companies is made after carefully reviewing the fundamentals of the company and its growth prospects. This type of investment usually makes for 5-10 years. Company should have suitable strategy or plan in place to increase promoter and shareholder's value substantially. These strategies may include expansion organically and inorganically, scaling up, strategic investment, joint ventures, coming up with an IPO etc. In listed company, one can take exit via open market, promoter buyback, and strategic investments by other funds whereas in unlisted company one can exit by selling shares to other strategic investors like private equity or through IPO.

- **Preference Shares:-**

One of the safest instruments to participate in a capital structure of a company is through preference shares. There are few types of preference shares like redeemable preference shares, cumulative preference shares, compulsory convertible preference shares etc. HNIs invest in preference shares of companies having proven track record, profitable business in place, healthy balance sheet and security coverage to get higher dividends than common stock. Unlike equity dividends the dividend on preferred stocks are defined and fixed which makes them comparable to NCD's and Bond opportunities available in the market.

Many preference shares are listed as well. This gives good liquidity option for the HNI's for selling or purchasing the shares depending upon its attractiveness. Usually the minimum ticket size is Rs 10 lakh which makes them suitable only for HNI's and UHNI's. These are also offered through private placements. Often company with a good credit rating which has issued preference shares with favorable dividend rate are sought by family office in order to benefit from its fixed income nature and lower risk than equity. Preference shares are also eligible for indexation benefit if held for long term and hence are tax efficient.

- **PE/VC Funds:-**

A private equity fund typically refers to a general partnership formed by PE firms, which are utilized to invest in private companies. The private equity fund may have general investment criteria (meaning it invests in different industries) or have specific industry criteria. However, private equity funds typically have an investment philosophy that it sticks to throughout its term, which tends to be anywhere between 7 and 10 years. After this time period elapses, the private equity fund is closed by having all funds distributed back to the limited partners.

Private equity funds may invest directly in equity securities of the target investment, in the form of mezzanine debt, or in both equity and debt. In general terms, private equity funds often focus on one of the following investment philosophies:

1. Venture capital - used to finance early stage companies that do not have access to financial markets or conventional financing.
2. Growth capital - used to fund the expansion of an established private company that is "asset light," and therefore may not be able to use its own assets to secure traditional financing for such growth.
3. Leveraged or management buyouts - used in combination with additional leverage placed on a company to allow the existing management to take control of the target. The company's cash flow has to be sufficient to cover the carrying costs of the additional debt.
4. Distressed or turnaround situations - used when companies are unable to service their existing debt, and the fund's equity is used to recapitalize the balance sheet along with management conducting a turnaround strategy.

Many HNIs have exposure in PE/VC funds up to some extent to support evolving ecosystem of start-ups and other growth oriented companies. Investments in these funds vary for different time horizons because investment takes time to reap its full amount of benefits to generate maximum return. In terms of risk, it is minimized and split in comparison to Individual stake in listed/ unlisted company since PE/VC

funds invests in number of companies with various time periods and different sectors. HNI and Ultra HNI can select PE/VC fund based on their Investment strategy, past consistent performance of returns generated by various funds, their set up fees, management fees and other commercials.

- **Mutual Funds (Equity Based):-**

An equity fund is a mutual fund that invests principally in stocks. It can be actively or passively (index fund) managed. HNIs park their excess fund in to mutual funds due to its open ended nature and liquidation after 1 year of holding is tax exempt too. Diversified equity funds believe to be the safe funds compared to purely equity oriented funds. Other than these two categories there are multiple categories of equity based mutual funds which attracts good return for investors usually in long run. There are many rating agencies that gives rating to the individual funds based on their return generation, risk-expense ratio, performance against benchmark, fund manager performance etc. Family offices take all these factors in to consideration before Investing.

This is a favorable instrument among HNI & Ultra HNI because of capital appreciation through growth and overall flexibility to get in to and move out of the fund. In terms of risk, it minimizes the risk compared to investment in stock market and other equity products.

- **Start-up Companies:-**

On 16th Jan 2016, Prime Minister Mr. Narendra Modi announced bunch of benefits and schemes to promote start-up ecosystem in India. The event was called 'Startup India, Stand up India'.

Start-up means:

- An entity, incorporated or registered in India
- Not older than five years,
- Annual turnover does not exceeding INR 25 crore in any preceding financial year,
- Working towards innovation, development, deployment or commercialization of new products, processes or services driven by technology or intellectual property.

The proliferation highlights the growing popularity of start-ups as an investment asset class for High Net-worth individuals (HNIs) and family offices. Some of the large Family offices such as Catamaran of Narayan Murthi, Ratan Tata Family office have invested substantially in many startups companies which became a trend followed by other mid-size Family offices as well.

Many family offices are often associated with various angel networks and other forums through which they get regular deal flows. They do in-depth analysis on startups and do due diligence by themselves and third parties to evaluate the prospect.

PMS:-

Portfolio Management Service is a tailor made professional service offered to cater the investments objective of different investor classes. The Investment solutions provided by PMS cater to a niche segment of investors. The Investors can be Individuals or Institutions entities with high net worth. In simple words, a portfolio management service provides professional management of investments to create wealth. There are certain PMS which are designed specifically for the HNI's investments which are more focused and have underlined theme to generate higher returns. The minimum ticket size for such portfolios is much higher than the normal PMS funds. For Family office Investments, PMS route to equity investments is more advisable as there is a separate professional set up which does the monitoring of the investments. Reputed PMS houses not only do in-depth analysis of each script but also have a complete insight of the businesses of each company, track their performance and are regularly in touch with the promoters of the their portfolio companies. These kinds of services help the quality of the investment.

Following are the chief benefits of PMS funds which cater to HNI's family office:

- 1. Professional Management:** PMS provides professional management of portfolios with the objective of delivering consistent long-term performance while controlling risk.
- 2. Constant Portfolio Tracking:** They understand the dynamics of equity as an asset class, so they track the investments continuously to maximize the returns.
- 3. Risk Control:** Well defined investment philosophy & strategy acts as a guiding principle in defining the investment universe. They have very robust portfolio management software that enables the entire construction, monitoring and the risk management processes.
- 4. Convenience:** Portfolio Management Service relieves the Investors from all the administrative hassles of investments. They provide periodic reports on the performance and other aspects of the investments.
- 5. Personalized Approach:** Investors gain direct personalized access to the professional money managers who actively manage the portfolio. This interaction may come in various different ways including in-person meetings, conference calls, written commentary, etc with the fund management team.

This is the convenient and believed to be relatively safer investment across all other equity products for HNI & Ultra HNI.

Debt:

Debt has often lower risk than equity and is sought by the Family offices to reduce their overall portfolio risk. There are various debt instruments available:

- **NCDs:-**

Non-convertible debentures (NCDs) are debt instruments with a fixed tenure issued by companies to raise money for business purposes. In order to provide liquidity and make it tax efficient these NCD's are quite often listed. This then becomes one of the most attractive features for the HNI's to invest. Unlike convertible debentures, NCDs can't be converted into equity shares of the issuing company at a future date. This instruments work on interest rate fluctuation factor hence its rate of interest is higher than fixed deposits. It has also potential to earn capital appreciation considering interest movement. If we compare this product with Bank FDs than NCDs are better than FDs deemed that interest rate movement and risk-return ratio. Apart from this, there are various types of NCDs available such as listed/unlisted, secured/unsecured, cumulative/non-cumulative, redeemable etc. According to the requirement of the company it designs to fulfill the company's objective

This kind of fixed income securities can be added to the portfolio to achieve diversification since the risks in these instruments are lower than equity. This is fruitful investment for HNI & Ultra HNI if one can gauge the risk of interest rate movement for future.

- **Bonds:-**

Bonds are used by companies, municipalities, states and sovereign governments to raise money and finance a variety of projects and activities. Owners of bonds are debt holders, or creditors, of the issuer.

There are various types of bonds available in the market such as Government Bonds, Municipal Bonds, Corporate Bonds, Emerging Market Bonds, Junk Bonds, Tax-Saving Bonds, and Taxable Bonds etc. While investing in bonds number of factors needs to keep in mind such as coupon rate, redemption, premium on redemption, coupon payment dates, taxation on interest etc. Some of the bonds are listed which provides good liquidity. HNI & Ultra HNI used this as an Instrument to minimize risk. It can also be used to generate regular cash flows as coupons are received on predetermined dates. One can also buy the bonds from secondary market.

Since this is a debt instrument so interest rate movement is key in determining its yield hence timing of Investment is also important. Considering macro environment factor one can always make timely invest in bond market.

- **Fixed Deposits:-**

Bank deposit is fully secured but at the same time returns are low as compared to other fixed instruments available in the market where as NBFCs/FIs deposit may contain risk since it is issued by company. There are many credit rating agencies that gives rating to the FDs considering company's credibility, financial position, it's repayment obligation, track record of the company etc. Investor can always analyze factors while investing in FDs. It generates very low return compare to other products. Generally banks and corporates give additional rate of deposit above Rs 1cr and in some cases the rate of interest is negotiable also. Many family offices utilize this option for a short term period or provide margin for any other opportunities.

- **Mutual Funds (Debt & Gilt):-**

Debt Mutual Funds mainly invest in a mix of debt or fixed income securities such as Treasury Bills, Government Securities, Corporate Bonds, Money Market instruments and other debt securities of different time horizons. Generally, debt securities have a fixed maturity date & pay a fixed rate of interest. The YTM of each bond within the funds varies depending upon the credit rating of investee companies hence higher return generating funds can also imply increase in credit risk. The rating agencies that gives rating to the individual funds based on their return, risk, expense ratio, performance against benchmark, fund manager's track record etc. Family office keeps in mind these factors while selecting a particular fund. This is a safest investment across all categories of mutual fund followed by fixed deposits.

Gilt fund basically is a mutual fund scheme that invests in Government Securities issue by Reserve Bank of India on behalf of the Government.

Many HNI & Ultra HNI have debt fund in their portfolio to get better returns than bank FD's and to derive tax benefit by availing indexation benefits for long term so that return can be maximized.

- **Fixed Maturity Plans in Mutual Fund:-**

FMPs are close-ended debt schemes with a fixed maturity horizon. FMP's are generally issued by banks and NBFC's. FMPs invest in money market instruments, bonds and government securities. Many Asset Management Companies (AMCs) introduced FMPs in the market to offer good returns. It also gives indexation benefit since amount to be invested for a long term. Its fixed tenure often makes them comparable with fixed deposits. However, unlike fixed deposits, FMPs do not guarantee returns but an indicative return can be estimated by analyzing and studying market scenario and the past performance of the issuer company of such similar products. Still it is considered to be the low risk instrument. Investor also gets indexation benefit for holding in FMPs for more than 3 years.

In this kind of Investments many HNI's park their funds during March to get additional year of benefit in indexation which will reduce the tax and can improve returns.

- **Inter Corporate Deposit (ICD's):-**

Inter-company deposit is the deposit made by a company that has surplus funds to another company for short period of time. Interest rate, frequency of interest payments, no of days are the feature of this instrument. It is a source of short-term financing to fulfill company's short term obligations. Usually it is unsecured source for raising funds, involves high risk and high return and solves temporary capital crisis. It is usually available through primary dealers or directly from company based on contacts. It is also not rated by any agencies. Investors can take short term risk by gaining high returns.

HNI's often rotates their funds through ICD's and lend it to the companies which offer favorable interest rate and has decent track record of its creditability.

Investments through AIF's:

One of the most prominent investment opportunities for family office is through AIF platform. This vehicle provides various opportunities, avenues and structures through which investments are made in various sectors such as Real estate, startups, equity etc. AIF is an entity which has to be registered with SEBI and can be a trust or an LLP. Depending upon the category of AIF, the tax implications for the investor is determined. The AIF Investment route has become an important option for family office investments as it provides not only professional advisory services but has also given many investment facilities run by reputed and credible fund managers. The minimum ticket size is considerable and it is upwards of 1cr. Alternative investments include private equity, hedge funds, managed futures, real estate, commodities and derivatives contracts.

- **Alternate Investment Funds (AIF):-**

In 2012, SEBI has introduced SEBI (Alternative Investments Funds) Regulations, 2012 (AIF Regulations) to recognize AIFs as a distinct asset class, promote start-ups and early stage companies, to permit fund investment strategies in the secondary markets and to tie concessions and incentives to investment restrictions.

Incorporating alternative investments into a traditional portfolio may help investor to reduce overall volatility while increasing portfolio diversification with a typically lower correlation to the market movements of traditional investments such as stocks and bonds. The AIF regulations make it mandatory to obtain certificate of registration from SEBI for enabling AIFs to operate under one of the following 3 categories:

Category I AIF	Category II AIF	Category III AIF
<ul style="list-style-type: none"> • Category I AIFs are funds with strategies to invest in Start-up or early stage ventures or social ventures or SMEs or infrastructure or other sectors or areas which the government or regulators consider as socially or economically desirable. Category I AIFs are funds with strategies to invest in Start-up or early stage ventures or social ventures or SMEs or infrastructure or other sectors or areas which the government or regulators consider as socially or economically desirable. • Sub-categories of Category I AIFs <ul style="list-style-type: none"> • Venture Capital funds, • SME funds, • social venture funds, • Infrastructure funds, and such other AIFs as may be specified. • Angel Funds as sub-category of venture capital funds • SEBI and Govt of India or other regulators may consider providing incentives or concessions shall be classified as Category I AIFs because AIFs have positive spillover effects on the economy. 	<ul style="list-style-type: none"> • Category II AIFs are funds which cannot be categorized as category I AIFs or category III AIFs. These funds do not take leverage or borrowing other than to meet day-to-day operational requirements and as permitted in the AIF regulations. • AIFs such as private equity funds or debt funds for which no specific incentives or concessions are given by the Government of India or any other regulator are included in the Category II AIF classification. 	<ul style="list-style-type: none"> • Category III AIFs are funds which employ complex or diverse trading strategies and may employ leverage including through investment in listed or unlisted derivatives. • AIFs such as hedge funds or funds which trade with a view to make short-term returns or such other funds which are open ended and for which no specific incentives or concessions are given by the Government of India or any other regulator are included in the Category III AIF classification.

- **Real Estate:-**

Real Estate, being a capital intensive industry, irrespective of bear or bull cycles financial capital, asset liquidity is the crucial aspect of property portfolio management sustainability. According to private wealth managers, over the past 2.5-3 years, HNI investors have been slowly returning to real estate as an investment option. However, given how they burnt their fingers back in 2008, this time around, the investors are more interested in lending to developers rather than buying equity.

Advantages in Real Estate Investments

- Low Risk & Secured Investments
- Long term Appreciation
- Capital Grows as the worth of the PROPERTY grows
- Less Volatile asset class compared to public equities
- Limited Downsize
- Direct Control
- Regular Income through renting

Taxation in Real Estate Investments:-

The Budget 2017 has given some relief on capital gains taxation on immovable property by lowering the holding period requirement for long-term capital gains to two years from the earlier three year period. This means homeowners can enjoy a slightly lower tax rate—20% after indexation benefit—on capital gains at the time of sale of the house after two years. Earlier, they would have incurred tax at the marginal rate if property was sold within three years.

- **Real Estate Investment Trust (REIT):-**

A Real Estate Investment Trust (REIT) is a company that owns, and in most cases operates, income-producing real estate. REITs own many types of commercial real estate, ranging from office and apartment buildings to warehouses, hospitals, shopping centers, hotels and timberlands.

The concept of Real Estate Investment Trusts (REITs) has been seen across the world since a lot of years. However, it is a new concept in India. The Securities and Exchange Board of India (SEBI) recently framed the SEBI (REITs) Regulations, 2014 (REIT Regulations) for the regulation of REITs in India.

REITs basically pool money from investors and invest them in income-generating assets offering investors a way to diversify their portfolios by investing in property. This gives an opportunity to those people to invest in the real estate who cannot otherwise afford to invest in the expensive real estate sector. REITs is registered and listed on the stock exchange. The units issued in return of investor's investment (i.e. unit holders) will be trade on the stock exchange like securities. REITs obtained exemption from dividend distribution tax in the Budget, a step towards making them attractive for the investors. The minimum amount required to invest into an REIT is Rs.2 lakh for any retail investor. Since 90 per cent of the profit generated needs to be distributed as dividend in REIT, it could provide a stable income for unit holders.

Taxation

Short-term capital gain tax is applicable for unit holders at the rate of 15 per cent. While interest is tax-exempt for REITs, it is taxable for unit holders. The registration charges for every purchase and sale of property is still applicable. Such factors can impact the profitability and attractiveness of REITs in India.

- **Infrastructure Investment Trusts (InvITs):-**

An Infrastructure Investment Trust (InvITs) is like a mutual fund, which enables direct investment of small amounts of money from individual/institutional investors in infrastructure to earn a small portion of the income as return. InvITs work like mutual funds or real estate investment trusts (REITs) in features. InvITs can be treated as the modified version of REITs designed to suit the specific circumstances of the infrastructure sector.

It is notified in the SEBI (Infrastructure Investment Trusts) Regulations, 2014 on September 26, 2014, providing for registration and regulation of InvITs in India. The objective of InvITs is to facilitate investment in the infrastructure sector.

InvITs that have been filed so far have specified minimum investment limits of Rs 10 lakh per investor. InvITs distribute regular dividends. They must be declared and distributed not less than once in every six months.

Taxation

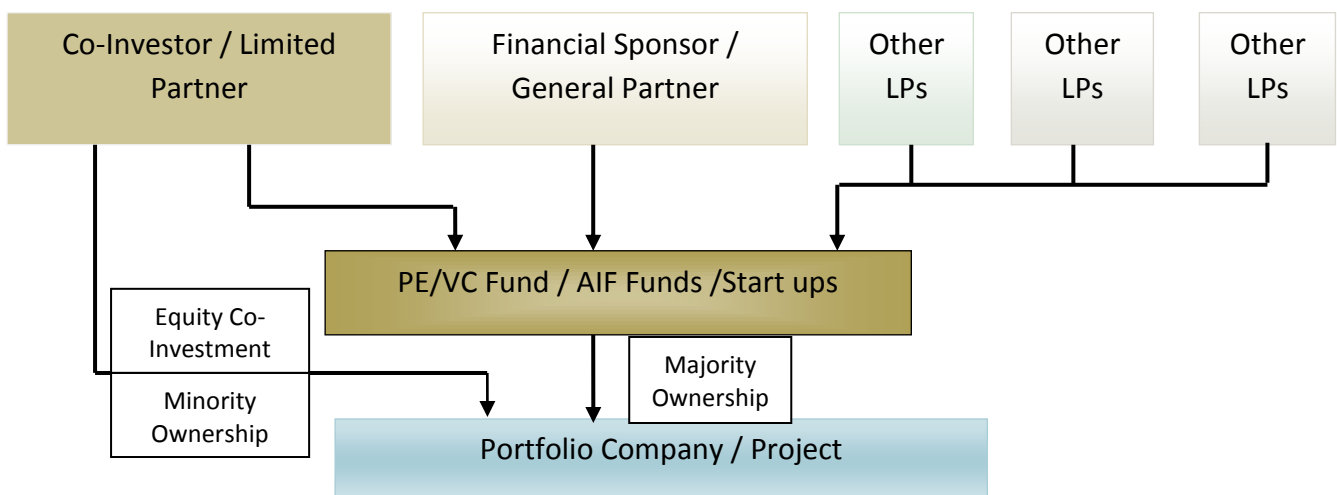
Investors of InvITs can draw comfort from a favorable tax-regime. Dividend income is tax exempt and no capital gains are levied if units are held for over 3 years and sold through the bourses. There is a small withholding tax for interest income to NRI unit holders. Further, there is the pass-through structure of InvITs mandating distribution of a minimum 90% of net-distributable cash and nil dividend distribution tax.

Co-Investments:

One of the avenues looked by a family office for their investment is co-investment opportunity tagged along with reputed fund manager or AIF or any other lead investor. It is a best bet for a family office investment as the primary due diligence is done by the lead investor and hence it is de-risked and relatively safer investment as the necessary validation is done at the lead investor level.

A Co-investment is a minority investment, made directly into an operating company/project alongside a Lead Investor/Sponsor/Financial sponsor or other PE/VC/AIF Funds in recapitalization or growth capital transaction. In certain circumstances PE/VC firms also seek co-investors for several reasons. Most important of these is that co-investments allow a manager to make larger investments without either dedicating too much of the fund's capital to a single transaction (i.e., exposure issues) or sharing the deal with competing private equity firms. Co-investors bring a friendly source of capital.

Typically, co-investors are existing limited partners in an investment fund managed by the lead financial sponsor in a transaction. Unlike the investment fund however, co-investments are made outside of the existing fund and as such co-investors rarely pay management fees or carried interest on an individual investment. Co-investments are typically passive, non-controlling investments, as the private equity firm or firms involved will exercise control and perform monitoring functions.



Taxation Implication in Various Equity, Debt and Alternate Investments:

- **For Listed Stock:-** If securities held for 12 months and sell within 12 months it attracts short term gain of 15% and if it held more than 12 months LTCG is exempted provided STT is paid on sale and purchase. Dividend on shares as tax free up to Rs 10 lakhs a year. Above that applicable tax rate is 10%.
- **For Unlisted Stock / Immovable Assets:-** If Investors holds any unlisted stock or immovable assets for less than 24 months (changed from 36 months in recent budget) before selling it , it would be considered short-term capital gain. If it holds more than 24 months before selling it would fall under long term capital gain.
- **For Preference Shares:-** Dividend income received by investors was already taxed through Dividend Distribution Tax (DDT). Now, budget 2016 proposes that in addition to DDT paid by the companies, tax at the rate of 10% of gross amount of dividend will be payable by the recipients, that is, individuals, HUFs and firms receiving dividend in excess of Rs 10 lakh per annum. In Budget 2017, family trust was also covered under the tax regime which was uncovered in 2016.
- **For Mutual Funds:-**

For Equity Funds:

If Mutual Funds Units held for 1 year or less it falls under Short term capital gain of 15% whereas the same if held for more than 1 year are tax exempt. There is no Dividend Distribution Tax (DDT) charged for equity mutual funds.

For Debt Funds:

Long term capital gain for debt funds are charged at 20% with Indexation if held and sold after 36 months. Within 36 months it is charged as Short term gain and taxed at the slab rate. There is no Dividend Distribution Tax (DDT) charged for debt mutual funds.

- **For AIFs:-** For Category I & II, it is a pass-through mechanism. It means if Income generated and accounted as a 'Income from Business or profession' than it will be a taxable from Investment Fund and Exempt for Unit Holders where if income is accounted as 'Income from the other than business or profession' than it is Exempt for Investment Fund and Taxable for Unit Holders. In case of Loss, it will be set –off and carry forward for Investment fund and for unit holder it shall not pass through. For Category III: Category III AIFs usually operates in the form of determinate trusts to avoid double taxation for investors. However, current regulations mandate these funds to be set up as indeterminate trusts. As per CBDT circular on AIF taxation, a trust will be liable to be taxed at the maximum marginal rate if its beneficial interest is not specified in the trust deed.

Dividend Distribution Tax in AIF:- AIF shall be mandatorily required to file income tax return to get the exemption where as it is not applicable to Unit Holder. Any income distributed by category I & II will have to deduct TDS from the income chargeable to tax in the hands of the investor.

Conclusion:

Family office as an investor category has transformed the investment scenario quite significantly. Gone are the days when investment in business was through banks, NBFC's or through IPO's. Today family office investments have emerged as a notable segment which benefits many business including startups. These investments are quite flexible, comes in various structure, have a longer time horizon etc. These investments are not only monetary investments but are accompanied by other qualitative features such as experience, relationships and tremendous networking opportunities. Family office Investments off-late is deriving immense mileage and preference among the various investment destinations.

Source & Reference:

Research firms

www.pwc.in
www.bain.in
www.kpmg.in
www.ey.com
www.dupress.deloitte.com
www.mckinseyandcompany.com

Data Provider

www.ventureintelligence.com
www.dealcurry.com
www.vccircle.com
www.bloomberg.com

Government and Others

www.ibef.org

Other Websites

www.bankbazaar.com
www.slideshare.net
www.familymint.com
www.wikipedia.com
www.valueresearchonline.com
www.investopedia.com
www.pressreader.com
www.careerride.com
www.fundsindia.com

Newspapers / Magazine/Media

www.economicstimes.indiatimes.com
www.dnaindia.com
www.business-standard.com
www.timesofindia.indiatimes.com
www.thehindu.com
www.financialexpress.com
www.moneycontrol.com
www.businesstoday.in
www.newindiaexpress.com
www.businessworld.in
www.livemint.com
www.hindustantimes.com
www.thehindubusinessline.com

About NRUPS

Nrups Consultants LLP was established in 1993 by Mr. Nrupesh Shah, Chartered Accountant. It is providing a complete range of Investment Banking and financial services to companies and has executed 400 plus assignments valuing in excess of Rs. 7000 Cr.

We are a team of professionals delivering 'Client Centric' solutions in Investment Banking domain. Corporates being our focused segment, we provide a comprehensive package of services and create a unique value proposition for our clients. Our firm possesses the best skill set, experience and expertise to cater to the client's needs in the I-banking and corporate finance. Our bouquet of services includes PE, JV, Debt Syndication/Swap, and expertise in M&A, Business Valuation, and Corporate Advisory etc.

Investment Banking Services:

- Private Equity Advisory
- Venture Capital / Seed Funding
- JV/SPV
- Merger & Acquisition (M&A) Advisory

Funding Solutions:

- Debt Funding
 - Working Capital Loan
 - Term Loan
 - Non fund based facilities
 - External Commercial borrowings
- Debt Restructuring
 - Debt restructuring and debt swapping for better leverage and to optimize cost of funding

Lending Solutions:

- Structured Finance
- Loan Syndication
- Mezzanine funding
- NBFC

Corporate Advisory Services:

Investment banking & Debt Syndication, Business modeling and structuring, Divestiture Services, Fairness Opinion Advisory, Capital Restructuring Advisory, Strategic & Corporate issues, Business valuation, MIS budgeting and system review.