

# **FINCREDIBLE**

**YOUR CREDIBLE GUIDE TO THE WORLD OF  
FINANCE AND INVESTMENTS**

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# FINCREDIBLE

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## INVESTMENT BASICS

### **What is Investment?**

Investment is the process of buying assets to generate returns. The generated return can be in the form of 'regular income' or 'capital appreciation'.

### **Why should you invest?**

Before we address the above question, let us understand what would happen if one chooses not to invest. Let us assume you earn Rs.50,000/- per month and you spend Rs.30,000/- towards your cost of living which includes housing, food, transport, shopping, medical, etc. The balance of Rs.20,000/- is your monthly surplus. For the sake of simplicity, let us just ignore the effect of personal income tax in this discussion. To drive the point across, let us make a few simple assumptions:



1. The employer is kind enough to give you a 10% salary hike every year.
2. The cost of living is likely to go up by 8% year on year.
3. You are 30 years old and plan to retire at 50. This leaves you with 20 more years to earn.
4. You don't intend to work after you retire.
5. Your expenses are fixed and don't foresee any other expenses.
6. The balance cash of Rs.20,000/- per month is retained in the form of hard cash.

Going by these assumptions, here is what the cash balance will look like in 20 years:

Years	Yearly income	Yearly expense	Cash retained	Retained Cash Invested @12%
1	600,000	360,000	240,000	20,67,063
2	6,60,000	3,88,800	2,71,200	20,85,519
3	7,26,000	4,19,904	3,06,096	21,01,668
4	7,98,600	4,53,496	3,45,104	21,15,621
5	8,78,460	4,89,776	3,88,684	21,27,487
6	9,66,306	5,28,958	4,37,348	21,37,368
7	10,62,937	5,71,275	4,91,662	21,45,363
8	11,69,230	6,16,977	5,52,254	21,51,566
9	12,86,153	6,66,335	6,19,818	21,56,069
10	14,14,769	7,19,642	6,95,127	21,58,959
11	15,56,245	7,77,213	7,79,032	21,60,318
12	17,11,870	8,39,390	8,72,480	21,60,228
13	18,83,057	9,06,541	9,76,516	21,58,765
14	20,71,363	9,79,065	10,92,298	21,56,003
15	22,78,499	10,57,390	12,21,109	21,52,012
16	25,06,349	11,41,981	13,64,368	21,46,859
17	27,56,984	12,33,339	15,23,644	21,40,611
18	30,32,682	13,32,006	17,00,676	21,33,328
19	33,35,950	14,38,567	18,97,383	21,25,069
20	36,69,545	15,53,652	21,15,893	21,15,893
		<b>Total Income</b>	17,890,693	4,26,95,771



A few things are quite startling from the above calculations:

1. After 20 years of hard work you have accumulated Rs.1.7 crores.
2. Since your expenses are fixed, your lifestyle has not changed over the years, you probably even suppressed your lifelong aspirations – better home, better car, vacations, etc.
3. After you retire, assuming the expenses will continue to grow at 8%, Rs.1.7 crores is good enough to sail you through roughly about 8 years of post-retirement life. 8th year onwards you will be in a very tight spot with literally no savings left to back you up.

What would you do after you run out of all the money in 8 years' time? How do you fund your life? Is there a way to ensure that you collect a larger sum at the end of 20 years?

Let's consider another scenario as per the last column of the table where instead of keeping the cash idle, you choose to invest the cash in an investment option that grows at 12% per annum. For example – in the first year you retained Rs.240,000/- which when invested at 12% per annum for 20 years yields Rs.2,067,063/- at the end of the 20th year.

With the decision to invest surplus cash, your cash balance has increased significantly. The cash balance has grown to Rs.4.26 crs from Rs.1.7 crs. This is a staggering 2.4x times the regular amount. This translates to you being in a much better situation to deal with your post-retirement life.

Now, going back to the initial question of why invest?

There are a few compelling reasons for one to invest:

1. Fight Inflation – By investing one can deal better with the inevitable – growing cost of living – generally referred to as Inflation
2. Earn higher returns- In order to grow your money, you need to put it in a place where it can earn a high rate of return. The higher the rate of return, the more money you will earn. Investment vehicles tend to offer the opportunity to earn higher rates of return than savings accounts. Therefore, if you want the chance to earn a higher return on your money, you will need to explore investing your money.
3. Achieve financial goals- Investing can help you achieve your financial goals. If your money is earning a higher rate of return than a savings account, you will be earning more money both over the long term and within a faster period. This return on your investments can be used toward major financial goals.

### **Where to invest?**

Having figured out the reasons to invest, the next obvious question would be – Where would one invest and what are the returns one could expect by investing? When it comes to investing one has to choose an asset class that suits the individual's risk and return temperament.

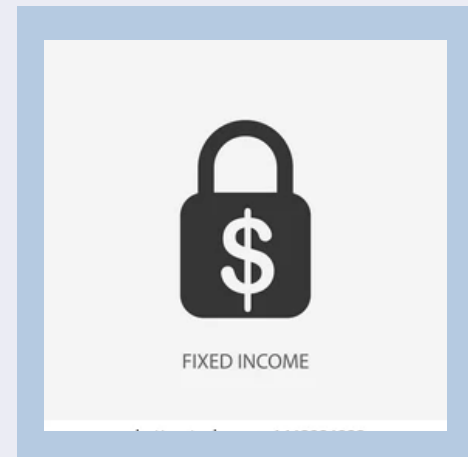
An asset class is a category of investment with particular risk and return characteristics. The following are some of the popular assets classes:

- **Fixed Income Instruments**

These are investable instruments with very limited risk to the principle and the return is paid as an interest to the investor based on the particular fixed income instrument. The interest paid, could be quarterly, semi-annual or annual intervals. At the end of the term of deposit, (also known as maturity period) the capital is returned to the investor.

Typical fixed income investment includes:

1. Fixed deposits offered by banks
2. Bonds issued by the Government of India
3. Bonds issued by Government related agencies such as HUDCO, NHAI, etc.
4. Bonds issued by corporates.



- **Equity**

Investment in Equities involves buying shares of publicly listed companies. The shares are traded both on the Bombay Stock Exchange (BSE), and the National Stock Exchange (NSE).

When an investor invests in equity, unlike a fixed income instrument there is no capital guarantee. However as a trade off, the returns from equity investment can be extremely attractive.

Indian Equities have generated returns close to 14% – 15% CAGR (compound annual growth rate) over the past 15 years.

Investing in some of the best and well run Indian companies has yielded over 20% CAGR in the long term.

Identifying such investments opportunities requires skill, hard work and patience.

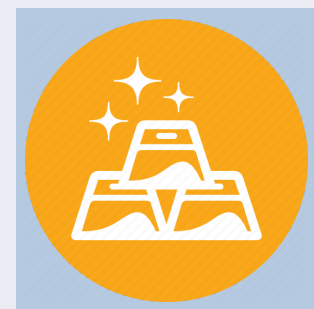
The returns generated over a long term period (above 365 days, also called long term capital gain) are completely exempted from personal income tax. This is an added attraction to investing in equities.



- **Commodity – Bullion**

Investments in gold and silver are considered one of the most popular investment avenues. Gold and silver over a long-term period has appreciated in value.

Investments in these metals have yielded a CAGR return of approximately 8% over the last 20 years. There are several ways to invest in gold and silver. One can choose to invest in the form of jewelry or Exchange Traded Funds (ETF).



Going back to our initial example of investing the surplus cash, it would be interesting to see how much one would have saved by the end of 20 years considering he has the option of investing in any one – fixed income, equity, or bullion.

By investing in fixed income at an average rate of 9% per annum, the corpus would have grown to Rs.3.3 Crs

1. By investing in fixed income at an average rate of 9% per annum, the corpus would have grown to Rs.3.3 Crs
  2. Investing in equities at an average rate of 15% per annum, the corpus would have grown to Rs.5.4 Crs
  3. Investing in bullion at an average rate of 8% per annum, the corpus would have grown to Rs. 3.09 Crs
- Equities tend to give you the best returns especially when you have a multi-year investment perspective.

SOURCE:ZERODHA



# UNION BUDGET 2022-2023

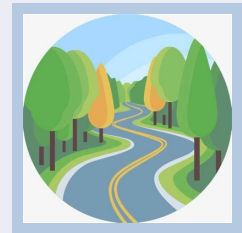
Finance Minister Nirmala Sitharaman announced that the country's economic growth is expected to be at around 9.2%, the highest among all large economies. The overall sharp rebound and recovery of the economy from the adverse effects of the pandemic is reflective of our country's strong resilience. In her speech, she said India is in a strong position to withstand future challenges and the government's focus will be on continuing boosting public investments to modernize infrastructure.

## **FOUR PRIORITIES:**

- PM GatiShakti
- Inclusive Development
- Productivity Enhancement & Investment, Sunrise Opportunities, Energy Transition, and Climate Action
- Financing of Investments

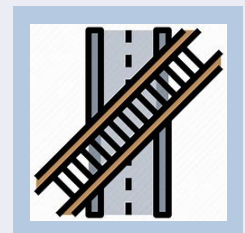
## **PM GATI SHAKTI - NATIONAL MASTERPLAN FOR WORLD-CLASS MODERN INFRASTRUCTURE:**

- Completing 25000km National Highways in 2022-23
- Unified Logistics Interface Platform
- Open Source Mobility Stack



- Integration of Postal and Railways Network.
- One Station One Product.
- 400 New-Generation Vande Bharat Trains.

- Multimodal Connectivity between urban transport and railway stations.
- National Ropeways Development plan
- Capacity Building for Infrastructure Projects.



## **AGRICULTURE AND FOOD-PROCESSING:**

- Chemical-free natural farming will be promoted pan India.
- Focusing on farmers' land in the 5km wide corridors along the Ganga river.
- Record food grains production and enhanced procurement.
- 2.37 lakh crore direct payment of MSP to 163 lakh farmers.
- Promoting post-harvest value addition, consumption, and branding of millet products
- Delivery of digital and hi-tech services to farmers in PPP mode.
- Use of 'Kisan Drones' to aid farmers.
- Launching fund with blended capital to finance agriculture start ups.
- Ken Betwa Link Project to benefit 9.1 lakh hectare farm land.



## **ACCELERATING GROWTH OF MSME:**

- Interlinking Udyam, E-Shram, NCS, ASEEM Portals.
- Extending ECGLS with a focus on hospitality and related enterprises.
- Revamping CGTMSE (Credit Guarantee Trust for Micro and Small Enterprises) with additional credit of 2 lakh crore.
- Rolling out of RAMP Programme: Raising & Accelerating MSME Performance with an outlay of 6000 crores over 5 years.



## **EDUCATION:**



- Digital University with Universal Education
- Launch of DESH-Stack E-Portal
- High quality E-content through digital teachers.
- 'One Class One TV' Channel Programme expanded from 12 to 200 TV channels.
- Startups to facilitate drone shakti for drone-as-a-service
- 750 virtual labs in science and mathematics.
- 75 skilling e-labs for simulated learning environment.

## **HEALTH:**

- National Digital Health Ecosystem will be rolled out.
- National Tele Mental Health Service Programme will be launched for quality counseling.
- Integrated Architecture: Mission Shakti, Mission Vatsalya, Saksham Anganwadi, and Poshan 2.0 to be launched.
- Two lakh anganwadis to be upgraded to saksham anganwadis.



## **TRANSITION TO CARBON- NEUTRAL ECONOMY:**

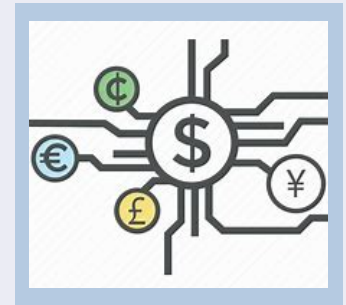


- allocation of rs.19500 crores proposed for production linked incentives for manufacturing of high-efficiency modules
- circular economy transition to increase productivity and opportunities in new businesses and jobs
- proposal to co-fire five to seven percent biomass pellets in thermal power plants; CO<sub>2</sub> savings of 38 MMT expected.
- four pilot projects for coal gasification and conversion of coal into chemicals also to come up.



### **CENTRAL BANK DIGITAL CURRENCY:**

- RBI to introduce digital rupee using blockchain and other technologies starting 2022-23
- this will lead to a more efficient and cheaper currency management system
- it will also give a boost to the digital economy



### **FISCAL MANAGEMENT :**

- Budget Estimates 2021-22: Rs. 34.83 lakh crore
- Revised Estimates 2021-22: Rs. 37.70 lakh crore
- Total expenditure in 2022-23 estimated at Rs. 39.45 lakh crore
- Total receipts other than borrowings in 2022-23 estimated at Rs. 22.84 lakh crore
- Fiscal deficit in current year: 6.9% of GDP (against 6.8% in Budget Estimates)
- Fiscal deficit in 2022-23 estimated at 6.4% of GDP

### **PM'S DEVELOPMENT INITIATIVE FOR NORTHEAST REGION (PM-DevINE):**

- Funding Infrastructure & social development projects.
- initial allocation: Rs.1500 crore

#### **Objective**

- Enable livelihood activities for youth and women.
- filling gaps in various sectors.

### **PRODUCTIVITY ENHANCEMENT AND INVESTMENT:**

#### **EASE OF DOING BUSINESS**

- Integration of central and state level systems through IT bridges
- unique land parcel identification number for IT-based management of land records
- establishing C-PACE to facilitate voluntary winding up of companies
- end to end online e-bill system and utilizing surety bonds in government procurement
- animation, visual effects, gaming, and comic (avcg) promotion task force
- support to 5g under production linkd incentive scheme
- 75000 compliances have been eliminated and 1486 union laws repealed to make it easier for businesses
- Voluntary exit for corporates to be cut down to 6 months from 2 years.
- The private sector will be encouraged to create sustainable and innovative business models for battery and energy as a service, improving the efficiency in the EV ecosystem
- opening up R&D for industry, startups, and academia
- 68% capital procurement budget for defence sector from domestic industry in 2022-23

## **PRODUCTIVITY ENHANCEMENT AND INVESTMENT:**

### **EASE OF LIVING**

- Issuance of chip-embedded passports.
- Modernization of building bye-laws, implementing, town planning schemes and transit-oriented development
- Establishing centers of excellence in urban planning
- Providing a battery swapping policy as an alternative to setting up charging stations in urban areas.

### **TAX PROPOSALS:**

- Allowing Taxpayers to file updated Return within 2 years for correcting errors
- Increasing Tax Deduction Limit on Employer's contribution to NPS Account of State Govt Employees
- Tax Relief to Persons with Disability
- Reducing Alternate Minimum Tax Rate and Surcharge for cooperatives
- Extending period of Incorporation by one more year of Eligible startups for providing Tax incentives
- Better Litigation management to avoid repetitive appeals
- Income from Transfer of Virtual Assets to be Taxed at 30%
- Surcharge/ Cess on Income & Profits not allowable as Business Expenditure



### **INDIRECT TAX PROPOSALS:**

- IT-Driven Customs Administration in Special Economic Zones
- Phasing Out Concessional Rates in Capital Goods and Project Imports Gradually and Apply Moderate Tariff of 7.5%
- Unblended fuel to attract additional differential excise duty
- Customs duty Rates Calibrated to Provide Graded Rate Structure to Facilitate Domestic Electronics Manufacturing
- Rationalization of Exemptions on Implements and Tools for Agricultural sector Manufactured
- Extension of Customs Duty Exemption to Steel scrap
- Reduction of Duty on Certain Inputs Required for Shrimp Aquaculture
- Review of Customs Exemptions & Tariff Simplification





# THE BEST BUSINESS WARREN BUFFET EVER HAD

Before Warren Buffett started making billions, he was a teen hustling to grow his bank account. His various early business schemes earned him \$5,000, the equivalent of about \$53,000 today, before he turned 20.

One of his most lucrative ideas involved setting up pinball machines in barber shops during a visit to a candy store in Omaha during this year's Berkshire Hathaway shareholder meeting: "I bought a machine for \$25 in 1946 and built a small empire out of it." Buffett was 17 at the time and let his friend Don Danley in on his business idea. Danley's side of the deal was to fix up the old pinball machine while Buffett handled negotiations with the barber, Frank Erico

His pitch to Erico went something like this: "We represent Wilson's Coin-Operated Machine Company, and we have a proposition from Mr. Wilson. It's at no risk to you. Let's put this nickel machine in the back, Mr. Erico, and your customers can play while they wait. And we'll split the money." "Mr. Wilson's Coin-Operated Machine Company" didn't exist, but that didn't matter: Erico loved the idea.



"The young business partners installed the machine in the barber shop and it was a hit from day one: The first night, Buffett and Danley collected four dollars. After one week, they had \$25, enough to buy another pinball machine.

Soon enough, Buffett had pinball machines operating in barber shops all over Washington, D.C., where his family lived at the time. The teen ended up selling the business, which he started with just \$25, for over \$1,000 after a year.

Buffett said: "It was the best business I was ever in. I peaked very early in my business career."

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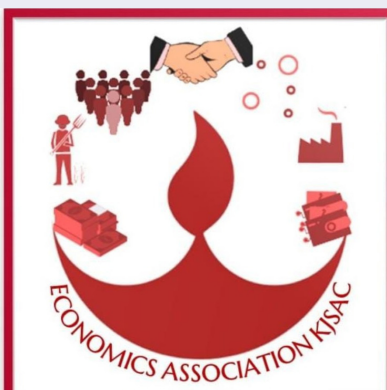
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