The Indian **EXPRESS**
NEW DELHI ■ MONDAY ■ OCTOBER 30, 2000

GUEST COLUMN

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Investors taken for a ride

UNIT Trust of India's (UTI) decision to terminate the Rajlakshmi scheme has come as a rude shock to lakhs of investors who had planned the future of their girl child on the basis of returns promised under it. Adding to their woes is the order by the Nagpur Bench of Mumbai High Court, refusing a stay on UTI's decision.

Under the scheme, launched in 1992, a unit holder was promised a sum 20 times the invested amount, at the time when the girl child attains 21 years of age. The premature termination of the scheme tantamount to a breach of trust. Although, a circular hinting at such a possibility has been cited, this was issued only in 1994 and therefore, not relevant to unit holders who invested in 1992.

The UTI has sought to justify its action on the grounds that in view of significant decline in interest rates, it would not be in a position to service unit holders at the promised rate. However, this is not relevant in the context of its obligations to investors under the scheme. The fundamental point here is the promise made in the offer document/application form which must be kept, whatever be the underlying circumstances.

The UTI is legally bound to continue its scheme until full maturity. And it should manage the portfolio to get maximum returns

For the 8-year period that the money has already been with UTI, it has decided to pay at an interest rate of 16.0 to 16.5 per cent per annum. In fact, this is the implicit rate needed to grow the invested amount to the sum promised at the age of 21 years. Had there been any merit in its argument of lower than expected earnings, then it should not have paid at this rate even for the period 1992-2000!

Undoubtedly, UTI's projections with regard to likely interest rates have gone haywire. But, why should investors be made to pay a price for this miscalculation? In a reverse scenario, ie, actual interest rates being higher than expected, the UTI obviously would not have shared the gains with the investors. There is a need for consistency in approach.

During 1998-99, when UTI's flagship scheme — US 64 — was in deep financial trouble, it still paid dividend to unit holders though at a rate lower than in previous years. This was done primarily to prevent erosion of confidence/faith in the scheme and maintain its overall image. Under the Rajlakshmi scheme, these considerations are much more relevant specially in view of the legally binding commitment. In US 64, there were no such compulsions.

Based on a survey, it was earlier reported that majority of the unit holders were 'satisfied' with UTI's decision. Such a response is not unexpected especially when they are not getting the required support from even the judiciary. It is a reaction under distress. Investors have simply reconciled to whatever is available. However, it would be highly improper to use this survey as an argument to justify an action which is patently unjust. The UTI is legally bound to continue the scheme until its full maturity. It should manage the portfolio in a manner as to generate maximum possible returns. If, there is a shortfall still, it should be made up by tapping other sources and, if necessary, even support from government should be sort, as it did in the case of US 64. This would go a long way in giving the beleaguered investors their due as well as maintaining UTI's image.

The UTI has been advised by the SEBI and the Finance Ministry to get out of the current mode of offering high and assured returns under its schemes. While, there is a need for greater realism in framing these, it should not be forgotten that investors get drawn to mutual funds in droves, primarily because of these two features. If, either of these is compromised, it is bound to affect the flow of funds.

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