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SAMĀCĀRA

JUNE




2024




*Navigating Change
and Embracing New
Beginnings*



SAMĀCĀRA – JUNE 2024

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EDITORIAL

Dear All,

As we step into the month of June, we are greeted with the reverberations of a historic electoral outcome that has left an indelible mark on the political landscape of India. The recently concluded elections have been a testament to the vibrancy and dynamism of Indian democracy, showcasing the power of the electorate in shaping the nation's destiny.

For SPCM a CA and Law Firm, based in the vibrant city of Pune, these elections hold significant implications. The changing political climate directly impacts the business environment, regulatory frameworks, and the economic policies that drive our clients' operations. As professionals dedicated to providing comprehensive legal and financial guidance, it is imperative for us to understand and anticipate the shifts that come with such a pivotal event.

The electoral results have ushered in a wave of optimism across various sectors. The expectation is that the newly elected government will deliver on robust economic reforms, renewed focus on infrastructure development, digital transformation, and ease of doing business. The mandate of the new government suggests a potential

overhaul of several legal and regulatory frameworks. Key areas such as taxation, corporate governance, and labour laws are likely to see significant reforms aimed at enhancing transparency and efficiency. For legal practitioners and professional alike, staying abreast of these changes is crucial. There are both opportunities and challenges for businesses such as ours.

Our firm is poised to assist clients in navigating the anticipated regulatory changes and capitalizing on new opportunities. Whether it is advising on compliance with updated tax laws, structuring investments to maximize returns, or guiding through the intricacies of corporate law, our team is equipped to provide strategic insights and solutions.

Beyond the economic and legal realms, the election results reflect broader socio-political trends that cannot be ignored. The electorate's choices underline the importance of addressing issues such as social justice, respect for democratic norms and constitutional obligations, denial of personality cult, environmental sustainability, and inclusive growth. As a firm, we believe in not just being passive observers but active contributors to societal progress.

SPCM's legal team is already analysing prospective legislative changes to ensure our clients remain compliant and competitive. Our proactive approach includes conducting workshops, offering training sessions, and providing detailed briefings on new laws and regulations. This is an integral part of our commitment to supporting our clients through periods of transition and ensuring they are well-prepared for the future.

In line with this vision, SPCM a CA and Law Firm is dedicated to fostering a culture of corporate social responsibility. We are initiating several community outreach programs and pro bono services aimed at supporting underserved sections of society. By aligning our practice with the broader goals of social equity and sustainability, we aspire to make a meaningful impact beyond the boardroom and courtroom.

Last month's get-together cum picnic of the SPCM family was an amazing and refreshing experience for all of us. The highlight of the event, SPCM Adalat, was particularly memorable. It provided an incredible platform for partners to share insights with students and associates from both our CA and legal divisions.

As the founder of this organization, I also had the honour of witnessing a significant milestone for one of our clients, Piotex Ltd, as they achieved SME listing. We extend our heartfelt congratulations and best wishes to them for their continued success.

Starting this month, we are introducing a series of articles on gold for the benefit and knowledge of all. These series will cover various forms of gold, gold bonds, gold holdings, and the impact of taxation. The first article in this series, "How to Navigate the Bullion Market," is included in this newsletter.

The election results mark the beginning of a new chapter for India. As we move forward, SPCM a CA and Law Firm remains committed to guiding our clients through the evolving landscape with expertise, integrity, and foresight. Together, we can navigate the changes, embrace new opportunities, and contribute to the continued growth and prosperity of our nation.



Let us embrace this new era with optimism and a collective resolve to excel and innovate. Here is to a future that holds promise and progress for all.

Let us decide and commit for **Navigating Change, Embracing Opportunity, and Building a Brighter Tomorrow.**

Thanking You.

With Warm Regards,



CA. Suhas P. Bora
Founder Partner,
SPCM and Associates,
Chartered Accountants

GLIMPSE OF EVENT

Facilitation of our mentor CA Suhas P. Bora at the listing ceremony of Piotex Industries Ltd



DUE DATES

Income Tax, PF and ESIC due date calendar for the month of June 2024:

DATE	DUE DATE FOR
07-06-2024	<ul style="list-style-type: none"> • Deposit of Tax deducted/collected for the month of May, 2024.
14-06-2024	<ul style="list-style-type: none"> • Due date for issue of TDS Certificate for tax deducted under section 194-IA, 194-IB, 194M and 194S in the month of April 2024.
15-06-2024	<ul style="list-style-type: none"> • Quarterly TDS certificate (in respect of tax deducted for payments other than salary) for the quarter ending March 31, 2024. • First instalment of advance tax for the assessment year 2025-26. • Certificate of tax deducted at source to employees in respect of salary paid and tax deducted during Financial Year 2024-25. • Payment of ESI Contribution for the month of May, 2024. • Payment of PF for the month of May, 2024.
30-06-2024	<ul style="list-style-type: none"> • Due date for furnishing of challan-cum-statement in respect of tax deducted under section 194-IA, 194-IB, 194M, 194S in the month of May, 2024.



GST due dates for the month June 2024: -

DUE DATE	RETURN	PERIOD	DESCRIPTION
10 th June	GSTR-7 (Monthly)	May'24	Summary of Tax Deducted at Source (TDS) and deposited under GST laws.
10 th June	GSTR-8 (Monthly)	May'24	Summary of Tax Collected at Source (TCS) and deposited by E-commerce operators under GST laws.
11 th June	GSTR-1 (Monthly)	May'24	Summary of outward supplies where turnover exceeds Rs.5 crore or have not chosen the QRMP scheme for the quarter of April-June 2024.
13 th June	GSTR-6	May'24	Details of ITC received and distributed by ISD.
13 th June	GSTR-5 (Monthly)	May'24	Summary of outward taxable supplies & tax payable by a non-resident taxable person.



DUE DATE	RETURN	PERIOD	DESCRIPTION
20 th June	GSTR-3B (Monthly)	May'24	Summary of outward supplies, ITC claimed, and net tax payable for taxpayers with turnover more than Rs.5 crore in the last FY or have not chosen the QRMP scheme for the quarter of April-June 2024.
20 th June	GSTR-5A (Monthly)	May'24	Summary of outward taxable supplies and tax payable by OIDAR.

INCOME TAX

30 Key Excerpts' of judgment upholding ICAI's tax audit limit

Supreme Court of India in the case of Shaji Poulse Vs. Institute of Chartered Accountants of India & Others transferred Case (Civil) No.29 of 2021 dated 17.05.2024.

Conclusion:

Key Excerpts from the Supreme Court judgment upholding the constitutional validity of the upper limit for tax audits for CAs as set by the ICAI, but quashing the disciplinary proceedings against petitioner CAs (who had flouted the limit) upto April 1, 2024.:SC.

Decision Summary:

The judgment was delivered by the Division Bench of the Supreme Court comprising Justice B.V. Nagarathna and Justice Augustine George Masih.

Senior Advocates V. Giri, P.S. Patwalia, Preetesh Kapur, Rajashekhar Rao, Tapesh Kumar Singh along with Advocates Manish K. Bishnoi, Pai Amit, Goutham Shivshankar, Nirmal Kumar Ambastha, Ashwin Kumar Das, B. Ramana Kumar and others appeared for the Petitioners, while the ICAI was represented by Senior Advocate Arvind P. Datar along with Advocate Nikunj Dayal.

A batch of Chartered Accountants (Petitioners) inter alia challenged the mandatory ceiling limit on the number of tax audits that a CA can accept in a FY as imposed by Clause 6, Chapter VI of Guidelines No.1

CA(7)/02/2008 dated August 8, 2008 issued by the Institute of Chartered Accountants of India (ICAI) under powers conferred by the Chartered Accountants Act, 1949 (CA Act) on the ground that the same is illegal, arbitrary and violative of Article 19(1)(g) of the Constitution of India.

Clause 6.0, Chapter VI of the aforesaid Guidelines provides that a member of the ICAI in practice shall not accept, in a financial year, more than the “specified number of tax audit assignments” under Section 44AB of the Income Tax Act, 1961. It further provides that in the case of a firm of Chartered Accountants, the “specified number of tax audit assignments” shall be construed as the specified number of tax audit assignments for every partner of the firm.

Points for Consideration:

- i. Whether the Council of the ICAI, under the CA Act, was competent to impose, by way of Guidelines, a numerical restriction on the maximum number of tax audits that could be accepted by a Chartered Accountant, under Section 44AB of the IT Act, in a Financial Year by way of a Guideline?
- ii. Whether the restrictions imposed are unreasonable and therefore, violative of the right guaranteed to Chartered Accountants under Article 19(1)(g) of the Constitution?
- iii. Whether the restrictions imposed are arbitrary and illegal and therefore, impermissible under Article 14 of the Constitution?
- iv. Whether exceeding such a specified number of tax audits can be deemed to be ‘professional misconduct’?

Key Observations made by the Supreme Court:

Point No. (i)

1. At the outset, SC observed *“One of the objects of the 1949 Act is to ensure that the profession of the Chartered Accountant in the country maintains high professional ethics and renders quality service inasmuch as Chartered Accountants are absolutely necessary for the efficient tax administration in the country...This would however depend upon the quality of service that is rendered by the Chartered Accountant as a professional for which regulation of the profession is necessary and the respondent-Institute has been established for, inter alia, such regulation of the profession.”*
2. Noting that Part II of Second Schedule of the CA Act had delegated the power to the Council to make any regulation or Guideline the breach of which would amount to a misconduct, Court remarked *“This delegation to define and enumerate a misconduct by way of a regulation or a Guideline is a legislative device adopted by the Parliament so as to leave it to the discretion of the Council of the respondent-Institute to incorporate, define and insert a Guideline or a regulation, the breach of which would result in a misconduct committed by a Chartered Accountant.”*
3. Thus, observed that the regulation or Guideline issued by the Council, the breach of which would result in a professional misconduct, being a part of clause 1 of Part II of the Second Schedule have to be read as part and parcel of the CA Act itself.
4. Court held *“The delegation of powers to add newer types of misconducts by way of a regulation or a Guideline is neither excessive nor ultra vires under Section 22 of the 1949 Act which deems any breach of a regulation or Guideline as a misconduct as per Clause 1 of*



part II of Schedule II to the 1949 Act...the Council of the respondent-Institute had the legal competence to frame the impugned Guideline restricting the number of tax audits that a Chartered Accountant could carry out which was initially thirty and later raised to forty-five and thereafter to sixty in an assessment year.”

5. Thus, SC ruled “...the Council of the respondent- Institute having the legal competence to frame the Guidelines, the breach of which would result in professional misconduct, in terms of clause 1 of Part II of the Second Schedule of the 1949 Act cannot be held to be vitiated on account of there being lack of competency or powers to frame the impugned Guideline by the Council of the respondent-Institute.”

Point No. (ii) & (iii)

6. Analysing the ambit of reasonable restrictions on the exercise of rights under Article 19(1)(g) in the interest of the general public under Article 19(6), SC observed ICAI’s reliance on the letter of CBDT and the CAG Report No. 32/2014 in order to satisfy the Court of the overwhelming need and appropriateness of the decision to place a ceiling limit as the best conceivable and practical measure at rectifying the targeted mischief.
7. Observed that a perusal of the material on record reflected that the ICAI’ assertion that there is a probable link between the number of tax audits undertaken and the quality thereof is supported by concerns and suggestions shared by experts and practitioners over a span of time extending over 30 years.
8. Following the dicta of the Constitution Bench of this Court in Saghir Ahmad vs. State of U.P. (1954) that the burden to establish that the instantiation of the specified number of tax audit assignments was within the purview of the exception laid down in Article 19(6) is on ICAI, SC opined that “...the respondentInstitute has placed ample



material before this Court to establish that the legislation comes within the permissible limits of clause (6).”

9. Held that Petitioners’ assertion that the undertaking of more than a specified number of tax audit assignments would not imperil the integrity and quality of the tax audit does not persuade us because a reasonable possibility of the fall in quality owing to the surfeit of tax audit assignments exists. Accordingly, SC remarked “...*we find it proper to trust the wisdom of the respondent-Institute as it has acted on bona fide and genuine recommendations of the CAG and the CBDT. We find no fault in the endeavour of the respondent-Institute to eliminate the possibility of the conduct of tax audits in an insincere, unethical or unprofessional manner.*”
10. Court concluded “...*by virtue of being a licensee, a privilege is conferred on Chartered Accountants. An elaborate and extensive process of recommendations and policy-making preceded the insertion of Section 44AB in order to achieve the public interest of prevention of tax leakages and more efficient tax administration. It is in pursuance of this primary goal of public interest that a further privilege under Section 44AB was extended to Chartered Accountants to conduct quality tax audits, so as to enable the interest of the public exchequer.*”
11. Further, noting that a reasonable restriction, within the meaning of Article 19(6) must also be ‘in the interests of the general public’, SC emphasized that it must consider the public interest involved not only from the perspective of the Chartered Accountants but rather from the perspective of the general public.
12. Outlining the difference between a right and a privilege, Court asserted, “...*the idea of compulsory tax audits was neither an inherent part of the practice of a Chartered Accountant nor an essential function which could be claimed as a fundamental right under Article 19(1)(g).*” SC added “*Furthermore, an examination of the nature of the supposed*

right that was being enjoyed by Chartered Accountants reflects that in practice, an assessee, seeking to comply with the requirements of Section 44AB, would approach a Chartered Accountant to obtain a certificate of audit.”

13. Apex Court quipped *“If the Parliament, in its wisdom, at a certain future date, due to technological developments or any other reason, finds that expeditious and accurate assessments can be ensured without imposing on assesseees the burden of additional requirement of tax audit report and thereby deletes Section 44AB from the IT Act, 1961, it could not be possibly argued that the right under Article 19(1)(g) has been abridged. What follows is that when a privilege is being granted, as a privilege by statute, which could be effaced completely, a reasonable restriction could also be imposed, the latter being a restriction of a lesser degree than a complete ban on an activity.”*
14. SC observed given public interest was the genesis of a privilege being extended to CAs and not a right, it is reasonable that the ICAI, an expert body, would have the authority to regulate the privilege extended to CAs in a reasonable manner deemed appropriate to serve public interest. And that *“...the public interest involved in the present petitions being pervasive is evidenced through CAG’s recommendation to the Government to insert a provision in the statute book putting a cap on the number of tax audits permissible.”*
15. Court rejected Petitioner’s argument that as a direct consequence and effect of the ceiling limit, an anomalous situation of discrimination between qualified professionals practicing in metropolitan cities as against those in mofussil areas, or those catering to small assesseees as against those catering to bigger assesseees, and that the potential effect of the concerned restriction is that practitioners dealing in mofussil areas or catering to small assesseees will face a reduction in



their income which is violative of their right to freely engage in their profession.

16. Observed *“There is no material to suggest that this partial limitation on the practice of the profession would lead to a significant reduction in income. In any case, it is trite law that reduction of income cannot be a ground for holding a reasonable restriction unreasonable...Where the devolution of a privilege is justifiably restricted in public interest and such restriction has a rational nexus with the objects sought to be achieved, the restriction cannot be held unreasonable due to hardship faced by a certain section of professionals.”*
17. Further, noting that the restriction placed under Section 224 of the Companies Act, 1956 w.r.t. the number of companies which could be audited by an auditor or firm of auditors is also an instance of regulation of the profession of Chartered Accountants intended by the Parliament so as to ensure that standard and quality in the audit of accounts of companies as defined under Section 3 of the Companies Act, 1956 are maintained.
18. Observing that the above restriction is to protect the rights and interest of the shareholders as well as the investors in the companies, SC remarked *“There has not been any challenge to the said regulation which is in the form of a restriction. Any breach of the restriction placed on the Chartered Accountants under Section 224 may lead to misconduct under the provision of 1949 Act.”*

Point no. (iv)

19. Court noted the alternative plea raised by the Petitioners that the ICAI initiated disciplinary proceedings only against a few Chartered Accountants, including Petitioners herein, while a majority of the Chartered Accountants who had breached the Guideline are not

facing any disciplinary proceeding and have not been proceeded against.

20. It was also contended that the disciplinary proceedings have been initiated only recently, when the ICAI has remained silent and not acted upon the Guideline, since it was issued on August 8, 2008, all of a sudden there could not have been initiation of disciplinary proceedings only against the Petitioners herein and possibly others who may not have approached any court of law, whereas many other Chartered Accountants have not been proceeded against and are virtually scot-free. Therefore, there is discrimination and violation of Article 14 of the Constitution in the implementation of the Guideline.
21. Considering the above arguments seeking quashing of disciplinary proceedings, SC inter alia observed “...*there has been an uncertainty in law due to a similar Guideline being successfully assailed and during the pendency of the matter before this Court the impugned Guideline being enforced and selective implementation of the same by the respondent-Institute.*”
22. SC stated “...*we find force in the submission that there was uncertainty in law only in the context of the pendency of the matter before this Court on there being quashing of the Guideline by the Madras High Court and an interim stay of the said judgment by this Court.*”
23. Observed “...*for the limited period of uncertainty, the rule against doubtful penalization as a principle could, in the interest of justice and equity, be made applicable and the benefit of uncertainty be given to those subjected to misconduct proceedings in the instant writ petitions and to also those Chartered Accountants who may have received notices from the respondent-Institute and who may not have approached any court of law or to other similarly situated Chartered Accountants who may not have been proceeded against.*”



24. Thus, Court held *“In these circumstances, due to the uncertainty in law owing to quashing of the earlier Guideline and the pendency of the Special Leave Petition filed by the respondent-Institute before this Court and the enforcement of a fresh Guideline, we quash the disciplinary proceedings initiated against the petitioners herein.”*
25. SC explained *“This is for the simple reason that only the writ petitioners have been proceeded against, while even according to the respondent-Institute, there were around twelve thousand Chartered Accountants who had breached the Guideline and had undertaken tax audits over and above the specified number but no action whatsoever was initiated against of them.”*
26. Further noting that the last revision to 60 tax audits was made a decade ago, Apex Court directed the Council to consider if the time is ripe to enhance the specified number of tax audits and to delineate the factors that it may consider in taking such a decision. *“In that view of the matter, the respondent-Institute is at liberty to enhance the specified number of tax audits that could be undertaken by practicing Chartered Accountants under Section 44AB of the IT Act, 1961. For that purpose, liberty is reserved to the practicing Chartered Accountants to make their suggestions to the respondent.”*

On CA Profession:

27. SC highlighted *“We commend that the respondent-Institute must be committed towards convergence of accounting, auditing and ethical standards with international practices and for its endeavour towards securing the highest standards of corporate governance. The true test however, lies in application and enforcement of these standards in the Indian context.”*



28. Stressing upon the significance of the role played by Chartered Accountants, Court remarked *"They can serve as effective catalysts in securing this circle of trust between the taxpayer and the tax administration. This is because a large proportion of the tax payers in India seek advice of Chartered Accountants to understand the rules of the road. The integrity and standards of Chartered Accountants determine the efficiency in the functioning of the nation's taxation system."*
29. SC also urged *"...Chartered Accountants must themselves comply with the relevant laws and regulations and avoid any conduct that discredits the profession. Needless to specify that Chartered Accountants must refuse to represent clients who insist on resorting to unfair means. Chartered accountants are relevant not only in securing corporate governance, but governance in broader contexts too."*
30. Lastly, acknowledging that CAs face many different responsibilities: to the profession; to the tax administration; to the client and to the economy at large, Court posited *"In this context, we stress on the importance of preserving their independence of view and integrity; to separate their client-advisory role from their role as public citizens seeking to improve the functioning of the tax machinery of the Nation. Integrity, objectivity, professional competence and due care and confidentiality must be the doctrines guiding their work ethic."*

Conclusion:

- a) Clause 6.0, Chapter VI of the Guidelines dated 08.08.2008 and its subsequent amendment is valid and is not violative of Article 19(1)(g) of the Constitution as it is a reasonable restriction on the right to practice the profession by a CA and is protected or justifiable under Article 19(6) of the Constitution.

- b) However, the said clause 6.0, Chapter VI of the Guidelines and its subsequent amendment is deemed not to be given effect to till 01.04.2024.
- c) Consequently, all proceedings initiated pursuant to the impugned Guideline in respect of the writ petitioners and other similarly situated Chartered Accountants stand quashed.
- d) Liberty is reserved to the ICAI to enhance the specified number of audits that a Chartered Accountant can undertake under Section 44AB of the IT Act, 1961, if it deems fit.

(Source : Team Taxsutra- TS-340-SC-2024)

GST

GIST OF GST NOTIFICATION

NOTIFICATION NO.	DATE	SUBJECT / HIGHLIGHTS
Instruction No. 01/2024-GST	30-05-2024	CBIC issued Guidelines for initiation of recovery proceedings before three months from the date of service of demand order-reg.
11/2024-Central Tax	30-05-2024	CBIC amended Notification No. 02/2017-CT dated 19th June, 2017 to assign district of Kotputli-Behror to CGST Alwar Commissionerate.
10/2024-Central Tax	29-05-2024	CBIC amended the Notification no. 02/2017-CT dated 19.06.2017 with effect from 5th August, 2023.

GST UPDATES

1. GSTN Introduces Option to Choose Personal Hearing in GST DRC-01 Responses:

The GSTN has enabled a new feature allowing taxpayers to select 'Yes' or 'No' for a personal hearing while replying to GST DRC-01 on the GST Portal. Previously, the portal automatically selected the 'No' option for a personal hearing in GST DRC-01.

2. Information from manufacturers of Pan Masala and Tobacco taxpayers

Government had issued a notification to seek information from taxpayers dealing in the goods mentioned therein vide Notification No. 04/2024 – Central Tax dated 05-01-2024. Two forms have been notified vide this notification namely GST SRM-I and GST SRM-II. The former pertains to registration and disposal of machines while the later asks information on inputs and outputs during a month.

To begin with, facility to register the machines have been made available on the GST Portal to file the information in Form GST SRM-I. All taxpayers dealing in the items mentioned in the said notification may use the facility to file the information about machines. Form GST SRM-II will also be made available on the portal shortly.

3. Launch of E-Way Bill 2 Portal w.e.f. 1.6.2024

GSTN has released the E-Way Bill 2 Portal (<https://ewaybill2.gst.gov.in>) on 1st June 2024. This portal ensures high availability and runs in parallel to the e-way Bill main portal (<https://ewaybillgst.gov.in>).

- Presently, E-Way Bill 2 Portal provides the critical services of E-Way Bill system, and gradually it will be extended with other services of e-way bill system.
 - E-Way Bills can be generated and updated on the E-Way Bill 2 Portal independently.
 - E-Way Bill 2 portal provides the web and API modes of operations for e-way bill services.
 - The taxpayers and logistic operators can use the E-Way Bill 2 portal with the login credentials of the main portal.
 - The taxpayers and logistic operators can use the E-Way Bill 2 portal during technical glitches in e-way bill main portal or any other exigencies.
 - The Criss-Cross operations of printing and updating of Part-B of E-Way Bills can be carried out on these portals. That is, updating of Part-B of the E-Way bills of portal 1 can be done at portal 2 and vice versa.
 - In case E-Way Bill main portal is non-operational because of technical reasons, the Part-B can be updated to the E-Way Bills, generated at Portal 1, at portal 2 and carry both the E-way Bill slips.
-

INVESTMENT AND TAXATION

How to Navigate the Fluctuations in Bullion Markets

The bullion markets, encompassing gold and silver, are known for their significant volatility. This is influenced by a variety of factors including economic data, geopolitical tensions, and fluctuations in currency values. Here's a more detailed look at how to navigate these fluctuations effectively, with practical examples:

Stay Informed

Staying informed is crucial for understanding the dynamic nature of bullion markets:

Economic Data:

Economic indicators such as inflation rates, interest rates, and employment figures can significantly impact bullion prices. For instance, during the 2008 financial crisis, the Federal Reserve's decision to lower interest rates led to a significant increase in gold prices as investors sought a safe haven against economic uncertainty.

Geopolitical Tensions:

Events such as wars, political instability, and international conflicts can drive up demand for gold and silver as secure investments during uncertain times. For example, the US-Iran tensions in early 2020 caused a spike in gold prices as investors moved their assets to safer investments.

Currency Values:

The value of the US dollar, in particular, has a strong inverse relationship with gold prices. In 2010, as the US dollar weakened due to quantitative easing policies, gold prices surged, reaching record highs.

Regularly follow reliable financial news sources, subscribe to market analysis reports, and use financial apps that provide real-time updates and insights. For example, you can set up alerts on Bloomberg or Reuters for news specifically related to gold and silver markets.

Diversify Investments

Diversification is a fundamental strategy to manage risk in volatile markets:

Asset Classes:

Spread your investments across various asset classes such as stocks, bonds, real estate, and commodities. For instance, if you have \$100,000 to invest, you might allocate \$40,000 to stocks, \$30,000 to bonds, \$20,000 to real estate, and \$10,000 to gold and silver.

Types of Bullion Investments:

Within the bullion market, diversify between physical bullion (coins, bars) and financial instruments such as ETFs, mining stocks, and mutual funds focused on precious metals. For example, you might invest in physical gold coins for long-term holding while also buying shares in a gold mining ETF like the SPDR Gold Shares (GLD) to take advantage of market movements. Diversification helps protect your portfolio from the full impact of price fluctuations in the bullion market, balancing potential losses with gains in other areas.

Long-Term Perspective

Taking a long-term perspective can help mitigate the effects of short-term volatility:

Investment Horizon:

Consider bullion as part of a long-term investment strategy. Historically, gold and silver have maintained their value over long periods, despite short-term price fluctuations. For instance, investors who bought gold in the early 2000s and held onto it saw significant appreciation by 2020, despite several periods of volatility.

Market Cycles:

Understand that bullion markets go through cycles of boom and bust. Long-term holding can help you ride out these cycles and benefit from the eventual appreciation in value. For example, during the 1970s, gold prices surged due to high inflation, then dropped in the 1980s, only to rise again significantly in the 2000s.

A long-term perspective requires patience and resilience, as it involves enduring periods of price decline in anticipation of future gains.

Consult Experts

Seeking expert advice can provide personalized guidance and insights:

Financial Advisors:

Engage with financial advisors who have expertise in precious metals. They can offer tailored advice based on your financial goals, risk tolerance, and

market conditions. For instance, an advisor might recommend allocating 5-10% of your portfolio to gold as a hedge against market volatility.

Educational Resources:

Utilize educational resources offered by financial institutions, such as webinars, seminars, and workshops on bullion investment strategies. For example, attending a seminar by a firm like Fidelity can provide valuable insights into current market trends and future outlooks for precious metals.

Professional Analysis:

Leverage professional market analysis and forecasts provided by reputable investment firms and analysts specializing in the bullion market. For example, subscribing to a newsletter from a precious metals expert can keep you informed about key developments and strategic investment opportunities.

Experts can help you make informed decisions, optimize your investment strategy, and avoid common pitfalls in the bullion market.

By staying informed, diversifying investments, adopting a long-term perspective, and consulting with experts, you can navigate the fluctuations in bullion markets more effectively and enhance your chances of achieving financial stability and growth.

FINANCE AND VALUATIONS

The Interplay Between NPV and IRR

In the rapidly changing landscape of the modern business environment, our quest for growth is increasing. This relentless pursuit has led to a significant increase in investment activities across various domains, including business takeovers, mergers, acquisitions of intangible assets, and the assessment of intrinsic share values. When evaluating potential investments, the primary concern that consistently emerges is whether the venture will generate profitability or result in financial losses.

To navigate this critical decision-making process, two essential analytical methods come to the forefront: Net Present Value (NPV) and Internal Rate of Return (IRR). These analytical tools are indispensable, serving as guiding lights that illuminate the path toward sound and prudent investment decisions.

Net Present Value (NPV) and Internal Rate of Return (IRR) are closely related concepts in capital budgeting and investment analysis, and they are often used together to evaluate the profitability of an investment or project.

By leveraging NPV and IRR, we are equipped to make informed choices that align with our strategic objectives and financial goals.

NPV (\$)

The positive and negative future cash flows throughout a project's life cycle discounted today

VS

IRR (%)

The discount rate at which the net present value (NPV) of an investment equals zero

What Is Net Present Value (NPV)?

Net present value (NPV) is the difference between the present value of cash inflows and the present value of cash outflows over a period of time.

The idea behind NPV is to project all of the future cash inflows and outflows associated with an investment, discount all those future cash flows to the present day, and then add them together. The resulting number after adding all the positive and negative cash flows together is the investment's NPV.

In Lehman's language, NPV simply means the amount earned on the investment incurred adjusted with the time value of money.

$$NPV = \text{Today's value of the expected cash flows} - \text{Today's value of invested cash.}$$

Positive NPV vs. Negative NPV

A positive NPV indicates that the present value of earnings estimates exceeds the projected expenditure. It is assumed that an investment with a positive NPV will be profitable.

A higher value is generally considered better. A positive NPV indicates that the projected earnings from an investment exceed the anticipated costs, representing a profitable venture. A lower or negative NPV suggests that the expected costs outweigh the earnings, signaling potential financial losses.

Why Is NPV Important?

Net present value (NPV) serves as a crucial tool for businesses and investors as it enables them to evaluate the profitability of a particular project or investment. It does so by considering factors like the average cost of capital and the anticipated rate of return.

NPV achieves this by discounting the future cash flows of the project to their current value. Essentially, NPV aids in making well-informed decisions, ensuring that the projects chosen will have a positive impact on the overall financial well-being and expansion of the business or investment portfolio.

What Is IRR?

IRR, or internal rate of return, is a metric used in financial analysis to estimate the profitability of potential investments. IRR is a discount rate that makes the net present value (NPV) of all cash flows equal to zero in a discounted cash flow analysis.

IRR calculations rely on the same formula as NPV does.

The ultimate goal of IRR is to identify the rate of discount, which makes the present value of the sum of annual nominal cash inflows equal to the initial net cash outlay for the investment.

This means IRR is the rate of return that one should expect throughout investment to recover the expected costs at least.

Interpretation of IRR

If the expected rate of return of a project surpasses the Internal Rate of Return (IRR), it indicates that the project is deemed acceptable for undertaking. This scenario suggests a lower likelihood of the project incurring losses and implies that the venture is financially viable. Conversely, if the expected rate of return falls below the IRR threshold, it signifies that the project is likely to operate at a deficit, resulting in a situation where it consumes more cash than it generates in profits. This outcome highlights the potential financial risk and unprofitability associated with proceeding with such a project.

While choosing between two investment decisions, the investor may look for a project that yields a higher IRR.

Unlike net present value, the internal rate of return doesn't give you the return on the initial investment in terms of amount.

For example, knowing an IRR of 12% alone doesn't tell you if it's 30% of Rs. 10,000 or 12% of Rs. 1,000,000.

Difference Between NPV vs IRR, Net Present Value vs Internal Rate of Return

Net Present Value is the difference between the present value of all future expected cash inflows and the present value of the cash outflows. On the other hand, the Internal Rate of Return (IRR) is the rate at which the net present value of cash inflows is equal to the net present value of cash outflows. NPV vs IRR which is a better metric? While both have a few differences w.r.t. usage, what they represent and implementation. Following are the differences between NPV and IRR.

Parameter	Net Present Value	Internal Rate of Return
Meaning	The present value of all cash flows of a project or investment is called NPV.	IRR is the rate at which the cash inflows are equal to cash outflows. In other words, it is the rate at which the Net Present Value of an investment is zero.
Representation	Represented in absolute terms	Represented in percentage terms
Indicates	Surplus from an investment or a project	It is the break-even point of an investment or a project – no profit or no loss scenario.

Parameter	Net Present Value	Internal Rate of Return
Rate for reinvestment	Cost of capital rate	Internal Rate of Return
Variable Cash outflows	It will not have an impact on the NPV.	Results in negative or multiple IRR

Correlation of NPV and IRR

The **IRR** is inherently tied to the NPV calculation. Essentially, IRR is the rate at which the NPV equals zero. Therefore, determining the IRR requires the same cash flow data used in NPV calculations but solves for the discount rate that balances the net present value to zero.

While both NPV and IRR are valuable tools for evaluating investments, they are used together to provide a more comprehensive analysis. NPV gives a clear indication of the value created by the project, whereas IRR gives the rate of return expected from the project.

Conclusion

Thorough investment analysis requires an analyst to examine both the net present value (NPV) and the internal rate of return, along with other indicators, such as the payback period, in order to select the right investment. Despite their differences, NPV and IRR are complementary tools used together to conduct comprehensive investment analyses. Ultimately, leveraging both NPV and IRR empowers decision-makers to make informed choices aligned with strategic objectives and financial goals in the pursuit of sustainable growth and profitability.

Also, it's important to have a good understanding of your own risk tolerance, a company's investment needs, risk aversion, and other available options.

THANK YOU!

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