

Brokers go slow on structured products

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MUMBAI: After pushing them for years, brokers are going slow on structured products — mostly capital protection schemes, which also promised to capture a certain percentage of the upside in the stock market. These products have lost their sheen because of the collapse of several global investment banks and defaults on bonds by many countries recently. In structured products, it is the NBFC arms of investment banks that mostly structure these equity-linked notes.

"We have been in a holding pattern on the structured products side, as we want to be more comfortable about the end use of the money that we take from investors," says **Maneesh Kumar**, head of wealth management solutions at ASK Wealth Advisors, a Mumbai-based financial planning & wealth advisory firm. "We want to be careful and ensure that the use of monies on the debt component of the investment is not leveraged. The portion in derivatives also has to pass through our scrutiny," he adds.

The broking houses that structure these products usually invest nearly three-fourths of the money raised in 'unsecured debentures' issued by a non-banking finance company (NBFC).

So, if an investor has invested Rs 100 with the broking house, Rs 75 is invested in debentures, which at a compounded rate of 10% over three years (usually the tenure of the structured product) grows to Rs 100, thus protecting the capital. The remaining 25% is usually invested in Nifty-linked derivatives — either options or futures — to capture the upside in the index. The structured product industry is estimated to house more than Rs 10,000 crore, with Citigroup, Merrill Lynch and Kotak accounting for a sizeable chunk of the market.

Akhilesh Singh, business head — wealth management and distribution services, Emkay, says although investors have been expressing concern about the credit quality of structured products, there have been no redemptions. "But the appetite for any fresh investments in structured products has reduced greatly," he says.

Other officials at broking houses say there is no evidence of defaults in any of the existing structured products. But they point out that it is only when a large number of such products come up for redemption that investors know whether the apparent safety of their funds is for real.

A host of wealthy Indians had put their money in structured products to protect the profits they had made from the bull run. Investors with less risk appetite also found such products attractive because these products were supposed to guarantee the capital. But with NBFCs — the counterparties in such transactions — taking hit in recent days, investors are finding that guarantee may have just been a mirage.

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