

Franklin's closure plans raise the hackles of investors

PALAK SHAH Mumbai | Updated on December 08, 2020 Published on December 08, 2020

Chennai body fears 50% asset write-off if the schemes are wound up

Franklin Templeton Mutual Fund India's (FTMIL) proposal to wind down six debt scheme, which together hold nearly ₹28,000 crore worth of assets, is facing stiff resistance from investors.

It is feared that at least 50 per cent investments will never come back if Franklin winds down the schemes. It is for this reason that the Chennai Financial Markets and Accountability (CFMA), a body formed by FTMIL investors, is urging everybody to vote against the proposal.

“Vote ‘No’ as FTMIL is trying to thrust large losses on unit-holders, which is why they are neither disclosing the actual current realisable value of investments nor indicating the time by which they would pay back the money.

“Per our estimate, there is a large risk of erosion of principal amount (your amount invested) to the extent of ₹15,000 crore to ₹20,000 crore, keeping aside the return on investments. The portfolio has illiquid securities, unlisted securities, almost unknown company securities, defaulting company securities, low-rated high risk securities, etc. How can any consent be given with so many unknowns risks?,” CFMA said in its communication to unit-holders.

Last week, the Supreme Court had directed Franklin to seek investor vote on winding down of the schemes. The voting will be held from December 26- 28. However, CFMA, in its communication on Tuesday, highlighted an e-mail from Franklin to investors that is an ‘admission’ that 50 per cent value of the debt scheme assets will be written off. This, according to the FTMIL is due to the ‘illiquid discount’ on the back of ‘wind down’ of schemes. In simple terms, Franklin meant to say that since there will be no active market for the schemes that are being shut down, it will attract a 50 per cent markdown value.

“Agree with CFMA about the loss. FTMIL should simply be asked to deposit ₹26,000-₹28,000 crore as per the last Net Asset Value (NAV) of the schemes in court. This then can be distributed to unit-holders. Market regulator SEBI took the same approach in the Sahara case,” said Vijay Bhushan, a Delhi-based large investor in Franklin funds.

“We consistently felt FTMIL took a unilateral decision to wind down schemes to avert inevitable default to its investors and consequent regulatory action against fund managers and trustees.

It has a front-ended lie and used Covid as an excuse to conceal their illegal, improper and risky investments. How Covid has not affected other schemes,” a CFMA communication said.

It said it would appeal to SC to put in the public domain the forensic audit report of FTMIL’s schemes so that investors can take an informed decision before voting.

Franklin schemes have lakhs of investors and CFMA has said that it is now gearing up for filing a ‘class action suit’ wherein a large group of people collectively bring a claim to court through a representative.

Reportedly, Sanjay Sapre, President, FTMIL, informed unit-holders that the schemes under winding up have received over ₹11,576 crore from maturities, pre-payments, and coupons up to November 27.

Franklin India Low Duration Fund, Franklin India Ultra Short Bond Fund, Franklin India Dynamic Accrual Fund and Franklin India Credit Risk Fund have nearly 48 per cent, 46 per cent, 33 per cent and 14 per cent of their respective assets under management in cash as on November 27, 2020.

Source: <https://www.thehindubusinessline.com/markets/stock-markets/franklins-closure-plans-raise-the-hackles-of-investors/article33282124.ece>