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Coverage –

LEARN TO EARN FROM YOUR GOLD HOLDING

Interest rates on bank gold deposit schemes are low. Retail investors should explore other options

DILIP KUMAR JHA & DIPTA JOSHI

Aruna Nayak is keen on using the euphoria around gold and silver to her advantage. She has been purchasing gold in a staggered manner and is looking to earn from her investments. She wonders if depositing a part of her holdings in gold deposit schemes — that she has been reading about — would help.

Naveen Mathur, associate director- commodities and currencies, Angel Broking, doesn't think so. "Given the current rise in gold and silver prices, by getting locked in such schemes, you might lose out on opportunities that come with having physical gold in hand," he says.

State Bank of India (SBI) and Corporation Bank have been running gold deposit schemes for years. Similar schemes are also being offered by private jewellers. The latest to join the fray are private bullion traders who aim to tap the high net-worth individuals.

RETAIL CUSTOMERS

Banks target customers willing to deposit their idle gold. These will be melted to check the purity and then used by the Indian Mint. Customers are given certificates by the bank that need to be produced on maturity. The certificate can be used



WORTH THEIR WEIGHT IN GOLD?

BANKS GOLD DEPOSIT SCHEME

- Minimum deposit amount 500 grams
- For individuals, HUFs, Trusts and companies
- Gold will be melted and used by the Indian Mint
- Low interest rates of 1-4.5% for 5-7 year period
- Charges for checking purity of gold - ₹1000 in Mumbai, ₹300 in smaller centers
- 25 -.50% penalty on premature withdrawals

BULLION ++ SCHEME

- Minimum deposit of 1 kg gold or 30 kg silver
- For high net-worth individuals
- 3 month lock-in. 1 year deposit period that can be extended
- Gold/silver can be kept collateral with other bullion traders to earn a minimum interest between 3-7%
- Management fee of 1-2 per cent depending upon amount of investment
- 0.5% penalty on premature withdrawal

as collateral for loans. There is no income tax on the interest earned, no wealth tax on the gold deposited and no capital gains tax applicable on transfer or maturity.

However, if earning income while keeping your gold safe is the aim, deposit schemes offered by banks don't really help. The interest offered on these schemes is low — SBI only offers one per cent for a five-year deposit, while Corporation bank offers four per cent per annum for a seven-year term.

So, retail investors should take a cue from Mathur's advice and sell at least a part of their holding while prices are still high. The money earned could be invested in options such as exchange-traded funds (ETFs), feeder funds and the e-series (popularly called e-gold) launched by the National Spot Exchange. Opting for ETFs would incur a cost, since individuals need a demat account on which he/she needs to pay an annual maintenance fee of ₹400-500. There is an additional broker fee of up to 0.5 per cent for gold ETFs. Investing in feeder funds would cost less, as fund houses would levy an expense ratio of only one per cent.

HIGH NET-WORTH INDIVIDUALS

The Bullion ++ scheme, introduced by private bullion dealer, RiddhiSiddhi (RSBL) allows investors to book a minimum one kg of gold or 30 kg of silver at its benchmark price in cash. The holding will remain with the company, even as the ownership remains with the investor for one year. Further, as an investor, one has the option to permit the company to keep the gold or silver as collateral with other bullion traders, who will use these for their own bullion requirements. This should help one earn three-seven per cent interest.

Investors can also extend the scheme for another year or even longer. In case investors want premature exit within the three-month lock-in period, they will have to pay 0.5 per cent penalty.

"In terms of earnings, if the investor is risk-averse and does not permit the company to use it as a collateral, his/her earnings would be limited to the extent of escalation in his/her invested commodity," says Vibhu Ratandhara, assistant vice-president, Commodity Research.

However, investors will need

to pay RSBL a marginal management fee of one-two per cent, depending upon amount of investment for the risk of holding the bullion and its insurance.

Physical possession of gold and silver, especially such high amounts, makes it risky. On the other hand, investment in futures through commodity exchanges is meant for hedgers and speculators, where the roll over cost is also factored in after expiry of the contract.

But, according to Ketan Kothari, director, RSBL, one of the biggest benefits of investing in Bullion ++ as compared to ETF is the option of investing in silver as well. "Investors have ETF options only in case of gold that has appreciated by 28 per cent in the last one year. However, silver which shot up by a staggering 133 per cent during this period, is not available for investment through ETF," he says.

RSBL Commodities plans to introduce smaller size products with 100 gm of gold and 5 kg of silver products in near future. To attract retail participation, the company is considering launching one gm gold investment, for which modalities are currently being worked out.