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EXAMINING ALTERNATIVE INVESTMENT FUNDS OPERATED IN INDIA

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Abstract : This study attention on to examine the AIF that are active in India and to ascertain the guidelines and policies governing Alternative Investment Funds. The study made use of secondary data. Information was gathered from the official sebi.gov.in website. SEBI-published quartile basis report from September, 2012 to December, 2023 has been used in this study. Descriptive statistics and graphical presentations have both been used in this study to interpret the data. This study found that AIF divides into three categories within Social venture funds, SME funds, Infrastructure funds, angel funds, venture capital funds, Fund of Funds, Debt Funds, Private Equity Funds, Hedge funds and PIPE and the SEBI (AIF) Regulations, 2012 and amendment 2023 of the SEBI provide guidance to AIF investors for seamless operations in India.

Keywords: Alternative Investment Funds, SEBI, Hedge Funds, Private Equity Funds, Fund of Funds.

I. Introduction

AIFs, or alternative investment funds (AIF), are investment vehicles that are privately pooled and invest in alternative asset classes, including derivatives, commodities, real estate, private equity, and hedge funds. Because the investment amount in AIFs is significantly bigger, high net worth individuals and institutions typically invest in them. The Securities and Exchange Board of India, or SEBI, oversees AIFs. An alternative investment fund (AIF) may be established as a trust, corporation, limited liability partnership, or corporate body in accordance with the SEBI (AIF) Regulations, 2012. Nonetheless, trusts are the legal structure for a large number of AIFs that have been registered with SEBI.

A special kind of investment that goes beyond conventional options like equities, mutual funds, fixed deposits, and so on is the AIF. Mature investors who are willing to take on greater risks in exchange for larger returns find it to be highly popular. Recent data from SEBI indicates that there was an overall 30% gain in FY 2022–2023. The entire commitment raised as of March 2022 was Rs 6.41 lakh crore, and as of March 2023, it had risen to Rs 8.34 lakh crore.

AIFs can be categorized according to their attributes; Category I AIF makes investments in SMEs, infrastructure, social initiatives, start-ups, and other activities that the government or regulators deem to be economically or socially beneficial. Infrastructure funds, social venture venture capital funds, SME funds, and angel funds are all categorized as Category I. AIFs that do not fit into categories I or III are classified as category II AIFs. Other than paying for their regular operating costs, they don't employ leverage or debt. Fund of Funds, Debt Funds, and Private Equity Funds are all categorized as Category II. AIF under Category

III invests using sophisticated trading techniques. It can invest in listed or unlisted derivatives using debt or leverage. Hedge funds and Private Investment in Public Equity Funds (PIPE) fall under Category III.

Indian residents, non-resident individuals (NRIs), and foreign nationals are the only investment categories allowed in AIF. AIF is also available for joint investment. They could be an investor's spouse, parents, or kids. A minimum investment of one crore is required from investors. This cap is Rs 25 lakh for fund managers, staff, and directors. AIFs typically have three-year minimum lock-in duration. A maximum of 1,000 investors can be included in each plan. But there is a 49-cap in the case of angel funds.

For certain investors looking for alternatives to old-style asset classes like bonds and equities and diversification along with the possibility of better returns, AIFs may be an appealing choice. Consider investing in AIFs for a deviation of reasons, including low volatility, portfolio diversification, and possibility of higher returns.

The sort of AIF category in which you have invested determines the taxation of AIFs. Investments considered as Category I and Category II are now pass-through. This indicates that the AIF is tax-exempted on any revenue it earns (except from business income). Investors will have to pay taxes on these gains. Even if the AIF is one making the investments, you will be taxed on them as though you made them yourself. Category III has not been awarded pass-through status. This implies that the fund will be subject to taxation on the revenue received. Nonetheless, taxes differ based on the kind of fund (trust, LLP, company, etc.). Taxes on gains are not due by investors in this category.

II. Review of Literature

In most nations, hedge fund laws and regulations are still in their infancy. Some hedge fund databases, such as Preqin, Eurekahedge, and Hedge Fund Research Inc., have established reporting rules and guidelines in light of the beneficial effects of the legislation on hedge fund deal operations. These measures aim to empower investors to make well-informed decisions. The hedge fund is subject to regulation in Thailand, the United Kingdom, and the USA. Each of these nations has its own set of laws governing hedge funds. Most other nations, on the other hand, govern inside the bounds of already-existing legislation. The findings of this study demonstrate that India complies with the guidelines and policies outlined in the SEBI (Foreign Portfolio Investor) Regulations 2014, the SEBI (AIF) Regulations 2012, the SEBI under Mutual Fund Regulations 1993, and the SEBI under FII Regulations 1995 (Mahato & Mohapatra, 2020). The promises made and the evolution of AIFs since their founding comprise their structure in India. Both graphical and inferential analysis are used to analyze AIFs. According to the report, AIFs have seen exponential growth as a source of investment opportunities. This is mostly because of the advantages and variety of possibilities it provides to investors, as well as the freedom to experiment it gives fund managers. Nonetheless, there is a countless transaction of potential for this relatively new investment option to make historic strides in Indian and international markets in the years to come. Furthermore, this development would mostly be contingent upon the choices made by SEBI regarding the AIF sector (Asbe, 2021). The expansion and effectiveness of AIFs in India with respect to these novel investment criteria that offers a range of choices in India. Based on multiple regression analyses that look at the relationships between the different variables that depend on one

another in a sequential manner (Yadav, 2014). The alternative investment market in India is growing, with a growing number of investors utilizing increased risk/reward potential and investing heavily for ownership. In 2012, the SEBI launched AIFs, with the main goal of promoting asset classes such as real estate funds, private equity, venture capital, and angel investing. HNIs and institutional investors are the primary investors in these funds. This article examines the state of the AIF in India today and compares it to the AIF industry in the US and Europe, highlighting the advantages that the latter have reaped from retail participation in the AIF sector (Gupta & Shetty, 2021). The alternative investment market in India is growing, with a growing number of investors utilizing increased risk/reward potential and investing heavily for ownership. In 2012 SEBI launched AIFs, with the main goal of promoting asset classes such as real estate funds, private equity, venture capital, and angel investing. HNIs and institutional investors are the primary investors in these funds. This article examines the state of the AIF in India today and compares it to the AIF industry in the US and Europe, highlighting the advantages that the latter have reaped from retail participation in the AIF sector. A 23-Likert scale survey was created for institutional investors and wealthy people who made AIF investments for the same purpose. Crowdfunding by its very nature has the impending to bring the original deal to an abrupt end, which would be bad for both sides—the entrepreneur without the VC's experience and the VC without a project. The analysis essentially found that the epidemic had not impacted alternative investment vehicles. Instead, they imply that, as a distinct asset class, they require a specific and open regulatory structure (Minutha & Jagannathan, 2022).

III. OBJECTIVES OF THE STUDY

The aim of the research presented in this paper is to examine the Alternative Investment Funds that are operational in India and to ascertain the guidelines and policies governing Alternative Investment Funds.

IV. RESEARCH METHODOLOGY

The study made use of secondary data. Information was gathered from the official sebi.gov.in website. Periodicity of the research is in the SEBI-published quartile basis report from September, 2012 to December, 2023. Descriptive statistics and graphical presentations have both been used toward analyzing the performance of AIFs over the year.

V. ANALYSIS OF THE STUDY

In contrast to other established investing strategies, AIF is a relatively new idea in India. Nevertheless, even though SEBI developed the AIF regulations a slight more than ten years ago, in the subsequent analyses shows that India's HNIs have greatly embraced them. Over 1026 AIFs have already been registered in India, per SEBI statistics.

Table 1: Cumulative net figures at the end of December 31, 2023

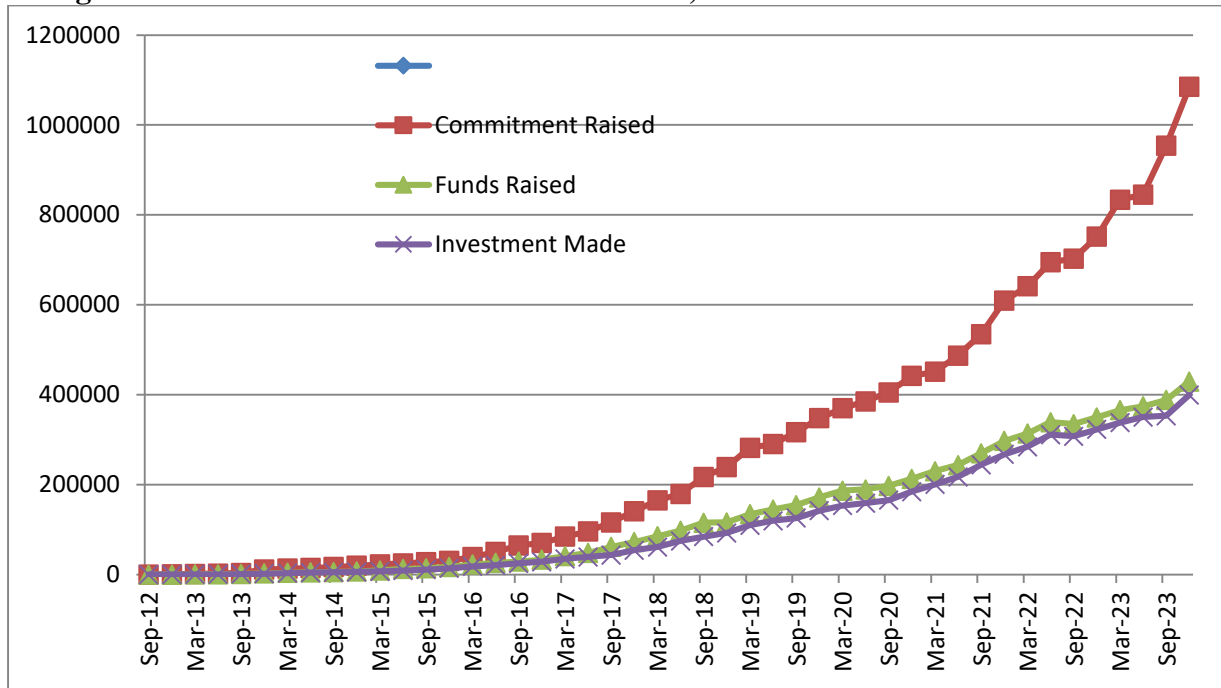
(All figures in Rs. Crores)			
Category of AIF	Commitments Raised	Funds Raised	Investments Made
Category I			
IF	18,738.08	8,380.28	5,469.33
SVF	1,419.93	641.03	258.43
VCF	52,057.17	29,488.41	36,935.42
SMEF	1,158.22	671.78	597.45
SSF	228	225.35	225.35
Category I Total	73,601.40	39,406.84	43,485.98
Category II	8,83,215.62	3,08,471.96	2,67,911.24
Category III	1,28,058.26	81,676.42	88,255.97
Grand Total	10,84,875.28	4,29,555.22	3,99,653.19

Source: <https://www.sebi.gov.in/statistics/1392982252002.html>

NOTE: IF= Infrastructure funds SVF= social venture funds, VCF= venture capital funds, SMEF= SME Fund, SSF = special situation funds

The categories of AIF operating in India are displayed in Table 1. Infrastructure funds, social venture funds, venture capital funds, SME funds, and special situation funds are all included in Category I. The amounts listed correspond to the commitments Raised, Funds Raised, and Investments made in each of these funds. In a similar vein, Category II and Category III similarly reflect the amount of funds raised, investments made, and pledges made. Above Category I of commitments Raised, Funds Raised, and Investments made, the cumulative net value of Infrastructure Funds was 18,738.08, 8380.28, and 5469.33, in that order. Above Category I of commitments Raised, Funds Raised, and Investments made, the cumulative net value of SVF was 1419.93, 641.03, and 258.43, in that order. Above Category I of commitments Raised, Funds Raised, and Investments made, the cumulative net value of VCF was 52057.17, 29488.41, and 36935.42, in that order. Above Category I of commitments Raised, Funds Raised, and Investments made, the cumulative net value of SME Funds was 1158.22, 671.78, and 597.45, respectively. Under Category I of commitments Raised, Funds Raised, and Investments made, the cumulative net value of Special Situation Funds was 228, 225.35, and 225.35, respectively. The total net value of the commitments Raised, Funds Raised, and Investments made under Category II was 267911.24, 308471.96, and 883215.62, respectively and the total net worth of commitments Raised, Funds Raised, and Investments made under Category III were, in that order, 128058.26, 81676.42, and 88255.97.

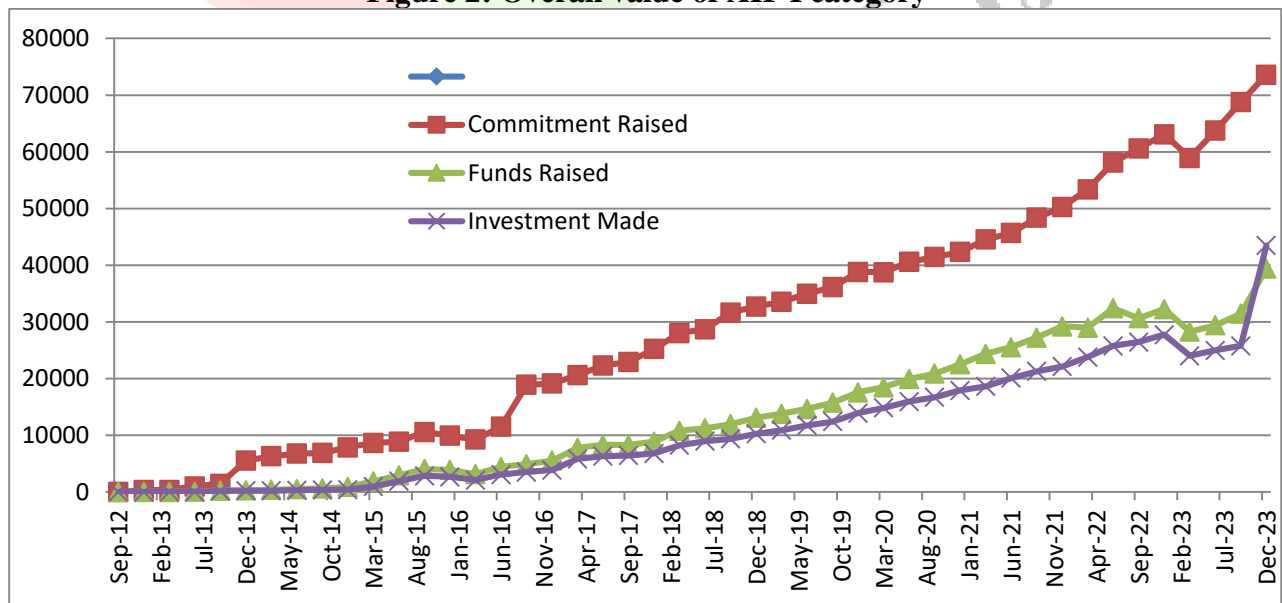
Figure 1: Overall value of Commitment Raised, Funds raised and Investment Made



Source: SEBI Report

The total value of AIF in the categories of commitment raised, funds raised, and investment made is revealed by Figure 1. Since the beginning, on September 2012 to December 2023, commitment raised funds has increased quarterly. From September 2012 to December 2023, there will be quarterly increases in funds raised and investments made from the study's initial level to its most recent level.

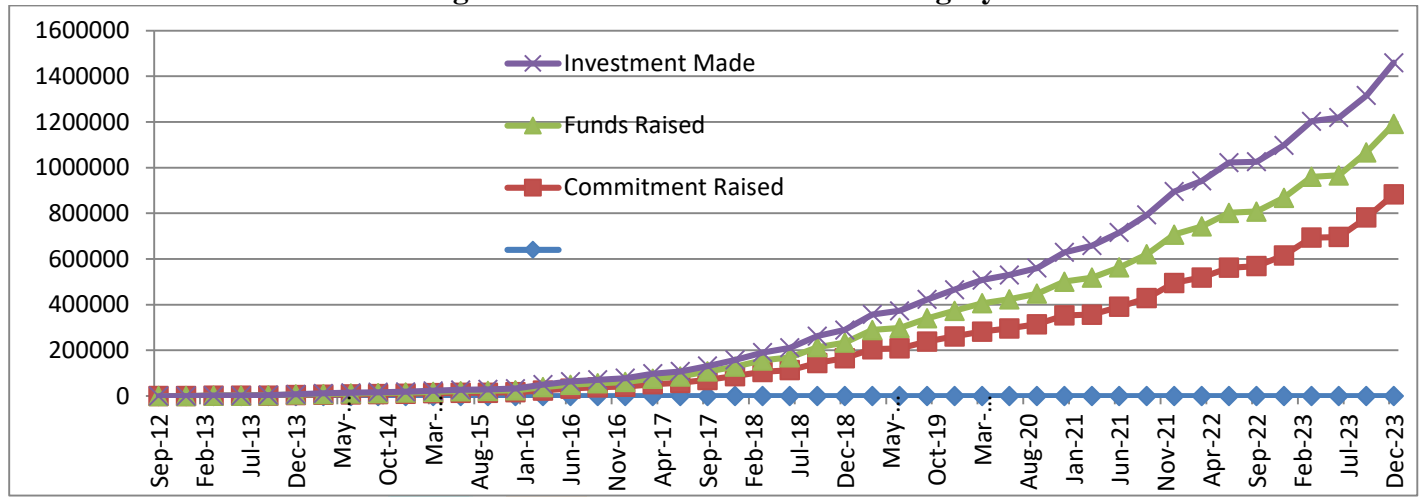
Figure 2: Overall value of AIF I category



Source: SEBI Report

The total value of AIF I category of commitment raised, funds raised, and investment made is revealed by Figure 2. Since the beginning, on September 2012 to December 2023, commitment raised funds has increased quarterly. From September 2012 to December 2023, there will be quarterly increases in funds raised and investments made from the study's initial level to its most recent level. Funds for commitment have been raised more quickly than the other category I funds. The money raised and the investments made have been allocated to the study period.

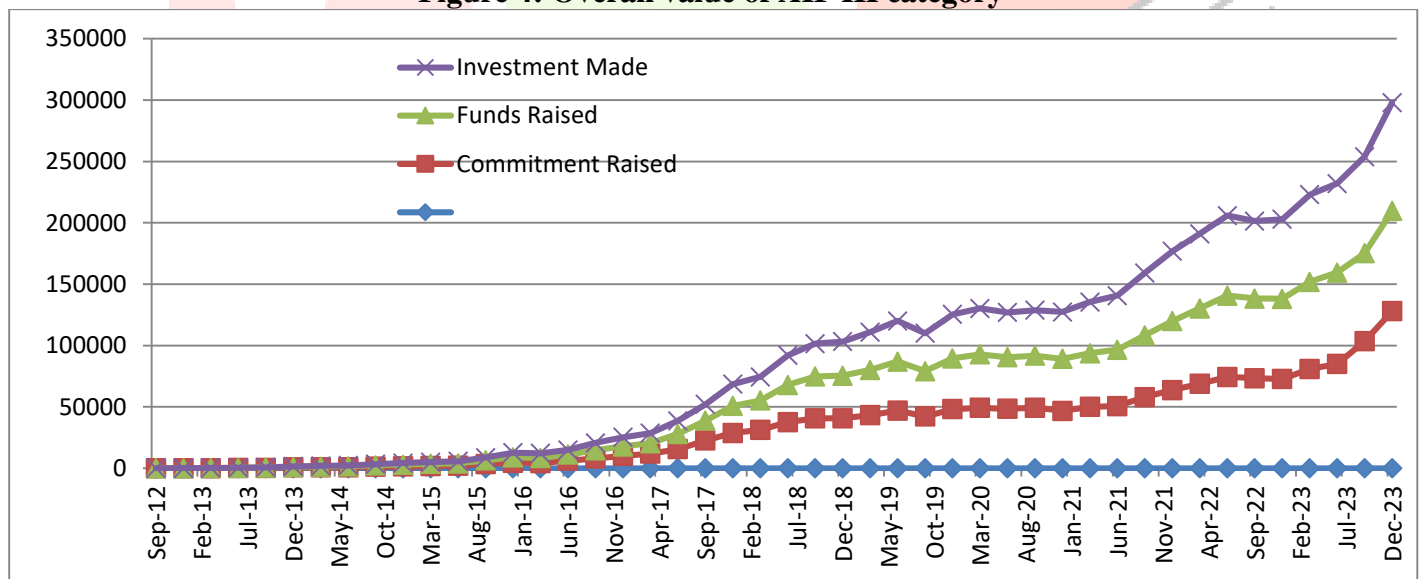
Figure 3: Overall value of AIF II category



Source: SEBI Report

Figure 3 illustrates how investments made, funds raised, and commitment raised has been gradually rising annually. All category II funds were steady between September 12 and November 16, even after all of these funds were enhanced. Of the three, the investment was made every quarter starting on November 16 and ending on December 23, rather than after funds were raised in response to a pledge made on the same dates.

Figure 4: Overall value of AIF III category



Source: SEBI Report

Figure 4 shows that, year over year, investments made, funds raised, and commitment raised have all been gradually rising. Between September 12 and November 16, all category II funds remained steady, even after these funds were all increased. Three investments were made: the first was made every quarter from November 16 to December 23, and the second was made after funds were raised in response to a promise made from November 16 to December 23.

VI. Rules and Regulations of AIF in India

The SEBI (Alternative Investment Funds) Regulations, 2012 define the "Alternative Investment Fund" which means that to any funds that are created or assimilated in India as a trust, corporation, limited liability partnership, or body corporate. It is a in private assembled investment vehicle that gathers capital from

investors, both domestic and foreign, and uses it to make investments in line with predetermined investment policy for the benefit of its investors. It is exempt from the SEBI under Collective Investment Schemes Regulations, 1999, and Mutual Funds Regulations, 1996, as well as any other Board regulations that govern fund management accomplishments.

After the effective date of these regulations, no entity or person may function as an Alternative Investment Fund unless they have obtained a certificate of registration from the Board. The Venture Capital Funds under SEBI Regulations, 1996 govern funds registered as venture capital funds. These regulations will apply to these funds until the current fund or pattern managed by the fund is closed, and the funds are not permitted to introduce new pattern into regulations.

If the Board is gratified that the applicant fulfils the conditions as outlined in these regulations, it may provide a certificate under any particular type of AIF. The Board will deliver certificate of registration of Form B upon receipt of the registration fee as detailed in the 2nd Schedule. The Board may enact any circumstances on the registration that it deems suitable. SEBI's has final AIF modification in 2023.

VII. Conclusion

Based on information gathered from SEBI websites, an analysis of the active AIFs in India indicates that three diverse categories of AIFs are active in the country. venture capital funds Social venture funds, SME funds, Infrastructure funds, and angel funds are all included in Category I. whereas Debt Funds, Fund of Funds, and Private Equity Funds comprise Category II, Hedge funds and PIPE are comprised within Category III. The AIFs Regulations, 2012 and amendment 2023 of the SEBI provide guidance to AIF investors for seamless operations in India.

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