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May - June 2017

PunjiTimes

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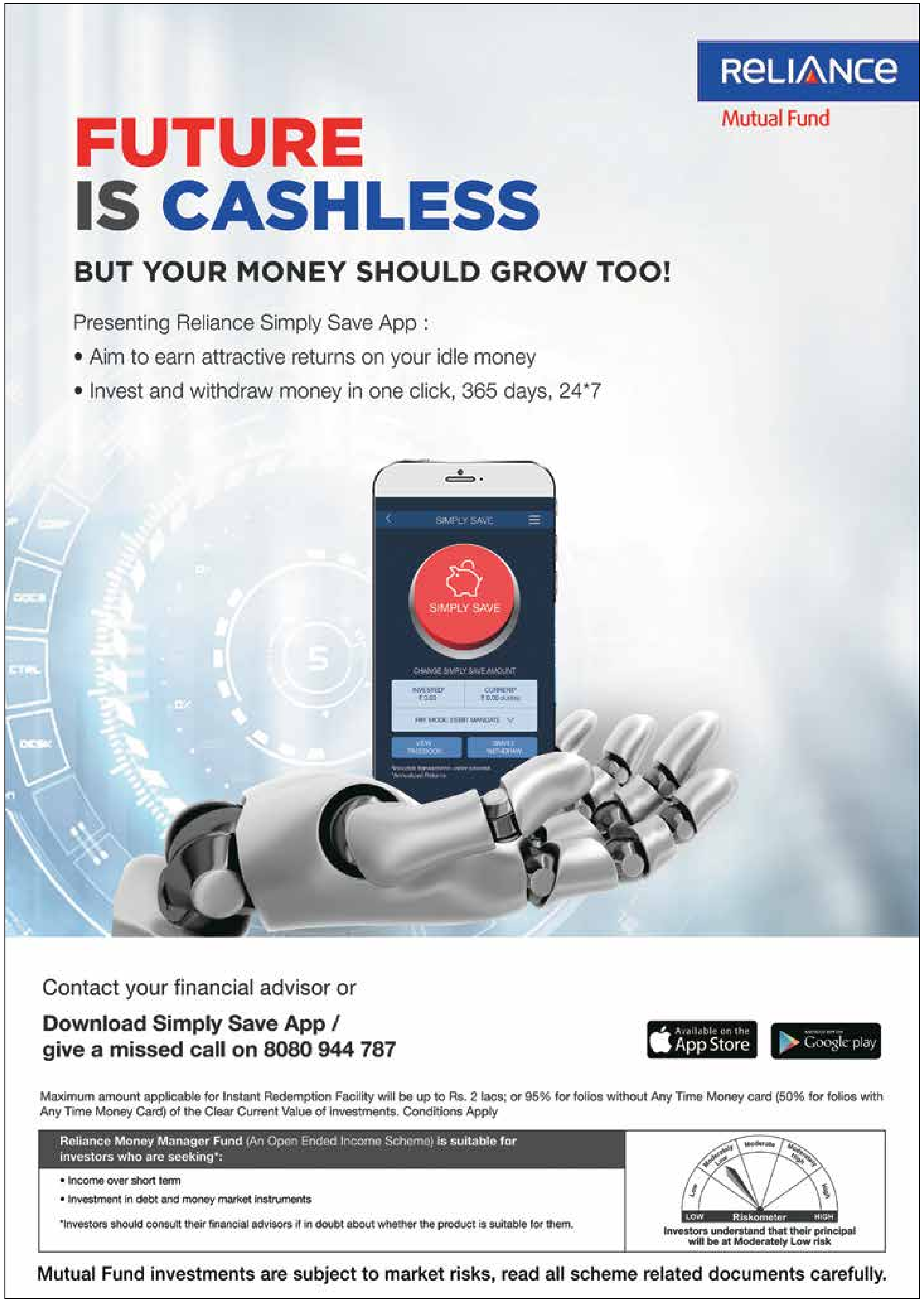

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From the Editor's Desk

The world has become a global village owing to social media, video calling services and other internet-based technologies that have made it possible to connect with people far away. This is true not only in the social domain. With access to so much data from across the world, the dynamics of finance, economics and politics are becoming increasingly complex. Every investor is affected by this complexity as a small change half way across the globe can cause ripples in our domestic market and vice versa. Thus, as investors in this day and age, it is important we understand how changes in one part of the world can affect our investments.

This issue we bring you expert views on the global economic and financial environment with specific focus on equity investments in the domestic market. Inside, you will find insights about the market outlook post UP elections, where it seems to be headed, how the US Federal Reserve's policies affect our market and much more.

Apart from the editorials mentioned above, inside you will also find special features on investment in London's property market and an innovative critical illness health insurance in the market.

Best

Tushar Goyal

Editor-in-Chief

Punji (*noun / hindi*) - **Capital** *meaning, wealth in the form of money or other assets owned by a person or organization or available for a purpose such as starting a company or investing.*

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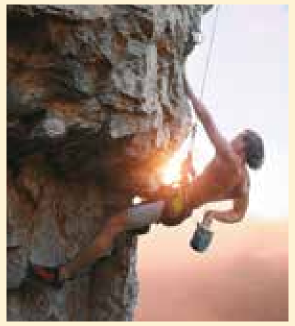

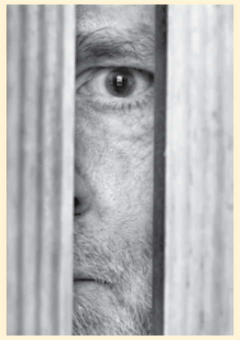

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How much are you willing to risk

> "Successful investing is about managing risk, not avoiding it"

RISK AND REWARDS

A central idea in finance is the direct relationship between risk and reward. While some may incorrectly believe that higher of risk leads to higher reward, a higher degree of risk only paves the way for a higher **potential** reward. Developing a financially sound portfolio requires striking a right balance between risk and potential reward.

APPROPRIATE DEGREE OF RISK

Benjamin Graham famously said, **"Successful investing is about managing risk, not avoiding it"**. Risk is an inherent part of investing, however, the presence of risk should not serve to deter you from investing. The only caveat is that risk warrants caution. Hence, you need to assess your risk taking ability and assume only as much risk as your resources and constraints allow.

RISK APPETITE

When you think of 'risk', do you think:

- loss
- uncertainty
- opportunity
- excitement

If it is the first, you fall into the 'risk averse' category. If it is the second, then you have a moderate risk-taking ability. If risk sounds like an opportunity to you, then you have a moderate to high risk appetite while if it absolutely excites you, then you are a 'risk lover'.

An important question to ask is are you willing to tolerate greater volatility for potentially higher returns, or do you place more emphasis on stability, with less risk? Before making an investment decision, ask yourself these five questions to determine whether the investment is aligned with your risk comfort level.

FINAL THOUGHTS

Understanding how risk averse you are can help you take suitable investment decisions for yourself. A good way to manage risk is to diversify, this allows you to dip your feet into high-risk-high-potential-reward investments while having a safety net of stable investments to fall back on

1
Do I have a reasonable expectation of the returns from this investment?

While investments are made with the expectation of a future return, the inherent risk involved does not guarantee one. An expectation of unusually high or infeasible returns can muddle your vision and accurate assessment of risk. Thus, it is best to be reasonable and rational when you set out a projection of the future returns.

2
What is the worst case scenario? Am I comfortable with it?

Risk makes way for the possibility that anything can go wrong with your investment. Having a Plan B is advisable since downsides are possible.

3
Will I be jeopardizing my financial commitments in case of a worst case scenario?

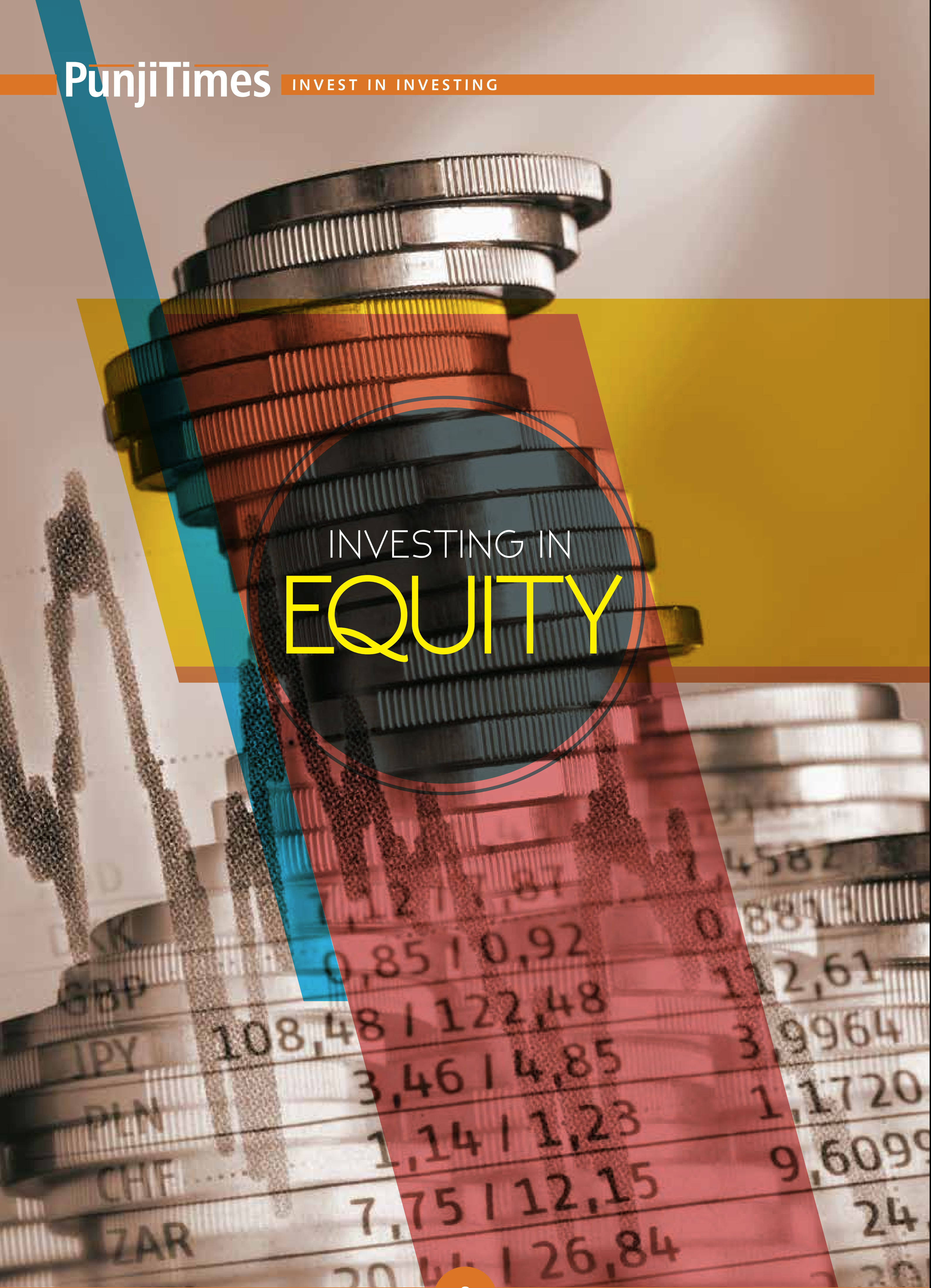
Have a sense of the magnitude of capital at stake and limit your downside by committing an amount that will not wreak havoc on your other financial commitments.

4
What is the source of my funds? Am I investing surplus funds?

Be cognizant of the source of your funds since this will help you undertake a level of risk in line with your objectives. Investment out of borrowed funds may expose you to more risk than you may want to undertake.

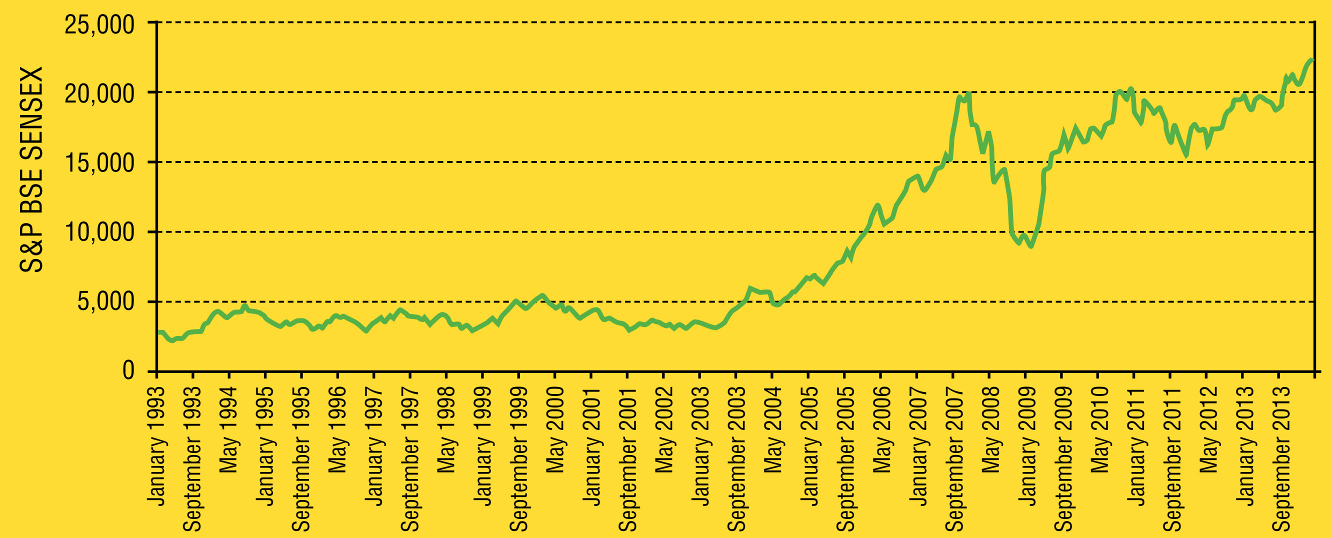
5
What is my time horizon?

Time horizon is another important factor to take into account while taking risk. The longer your time horizon, the better it is for your investments. There is a higher level of risk involved when you have limited time.



INVESTING IN EQUITY

> Investing is not about catching the highs and lows of the market but understanding the trend and acting accordingly



Most investors look at equity markets as being inherently volatile, subject to arbitrary fluctuations based on incomprehensible market sentiments. While volatility implies risk, lets put things into perspective to see what we can learn.

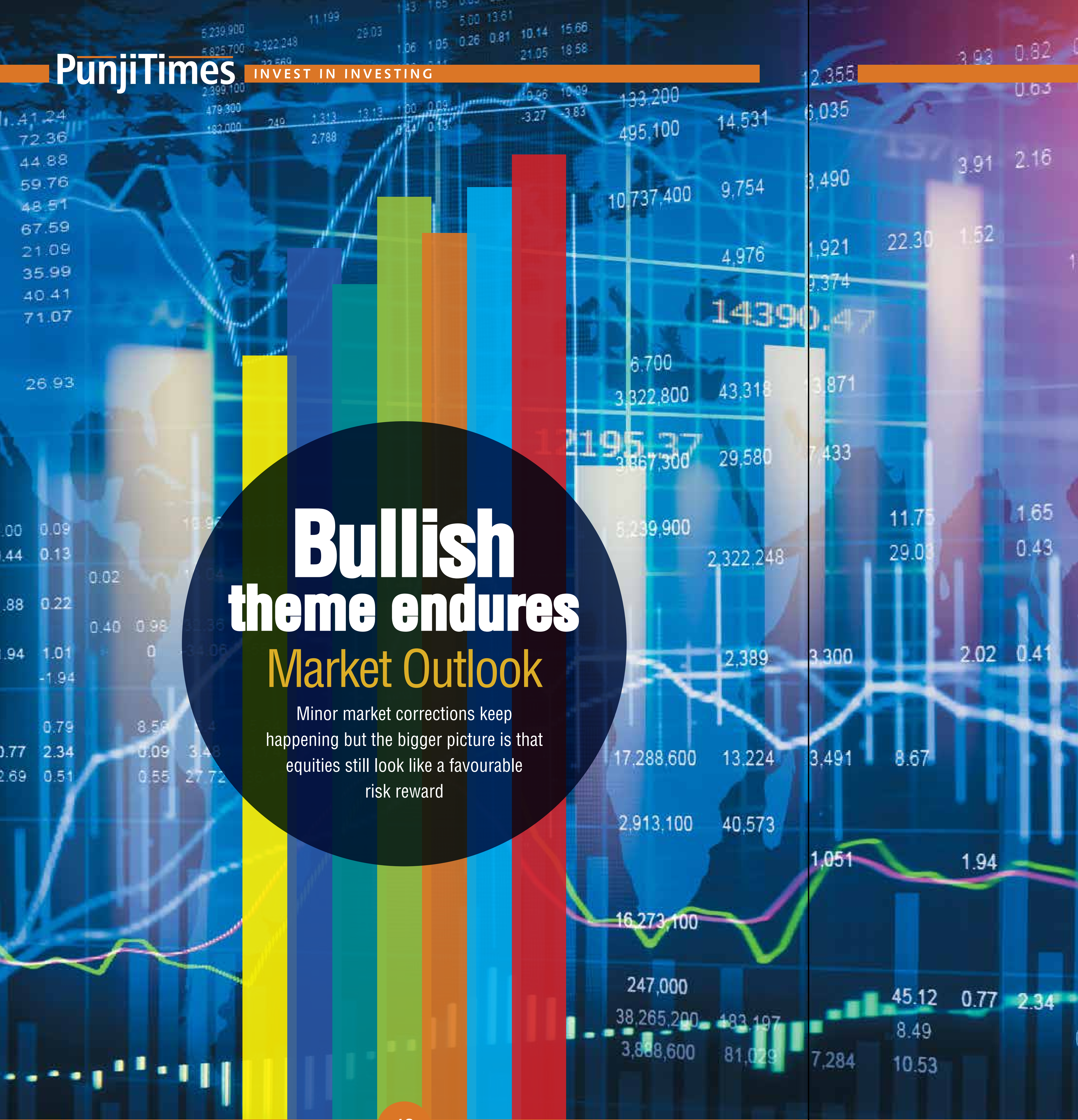
Volatility and risk aren't absolute in nature, but rather relative to a certain time frame. The relative volatility of an investment is higher in the short-term than in the long-term. This can be seen in the graph.

In the short-term, the market witnesses a slew of ups and downs, meaning higher volatility, meaning higher risk. However, if we step back for a moment and look at the general trend of the stock market, we can see a clear trend. Thus, in the long-term, this volatility becomes less relevant because of the upward trend of the index. Equity has the potential for generating huge returns despite volatility, given a long enough time horizon. Investing is not about catching the highs and lows of the market but understanding the trend and acting accordingly.

While equity investments do come with short-term risks, entirely avoiding the asset class is not the best of long-term strategies. This is because the Indian equity market has historically generated better returns compared to other asset classes and will likely do so in the future. Moreover, for a significant number of domestic investors, investment is undertaken with a view to support tax planning. Thus, even from a tax-saving perspective, equity schemes that offer tax benefits such as the Equity Linked Savings Schemes (ELSS) have traditionally outperformed conventional debt products such as the Public Provident Fund (PPF).

Investors looking at undertaking only a moderate amount of risk can take advantage of an index performance by investing in index funds. These funds follow a passive investment strategy, benchmarked to an index such as the Nifty, Sensex etc., where the portfolio replicates the movements of the benchmark. An index fund invests in only those stocks that compose the index, proportional to their weight. Thus, someone who invested in a BSE-benchmarked index fund in 2000 would have seen significant returns over a 15 year period.

As the Indian economy continues to see expansion with industrial growth, increase in employment/consumption and positive regulatory reforms, the enthusiasm of both the domestic and foreign investors in the Indian equity market is bound to grow. As a consequence, the stock market is likely to see an upward swing in the medium to long term. Thus, even for a moderately optimistic investor willing to look beyond the short-term volatility, investing in equity through the various schemes can prove to be a good opportunity to earn higher returns and build a substantial corpus ■



Bullish theme endures

Market Outlook

Minor market corrections keep happening but the bigger picture is that equities still look like a favourable risk reward

The Indian stock markets have been on an upward trajectory that has pushed indices close to their all time highs. This resonates well with our bullish view on equity as an asset class in the long term. We are now reaching a point where an improvement in corporate earnings looks imminent over the next few years. We are also in a very interesting scenario as far as interest rates are concerned. In our opinion, interest rates may stay down for a while and are unlikely to move up significantly from here. That combination is always very important when we are looking at how valuations will behave and how the markets are likely to move.

If one looks at large cap stocks in the index, they are not very expensive considering their long-term averages from a pure valuation perspective. As you go down the chain in market cap, stocks seem more and more expensive but in the large cap space, there are still a lot of opportunities where valuations are quite reasonable, especially in the context of much lower and stable interest rates. Minor corrections can keep happening but the bigger call and the bigger picture is that equities still look like a favourable risk reward.

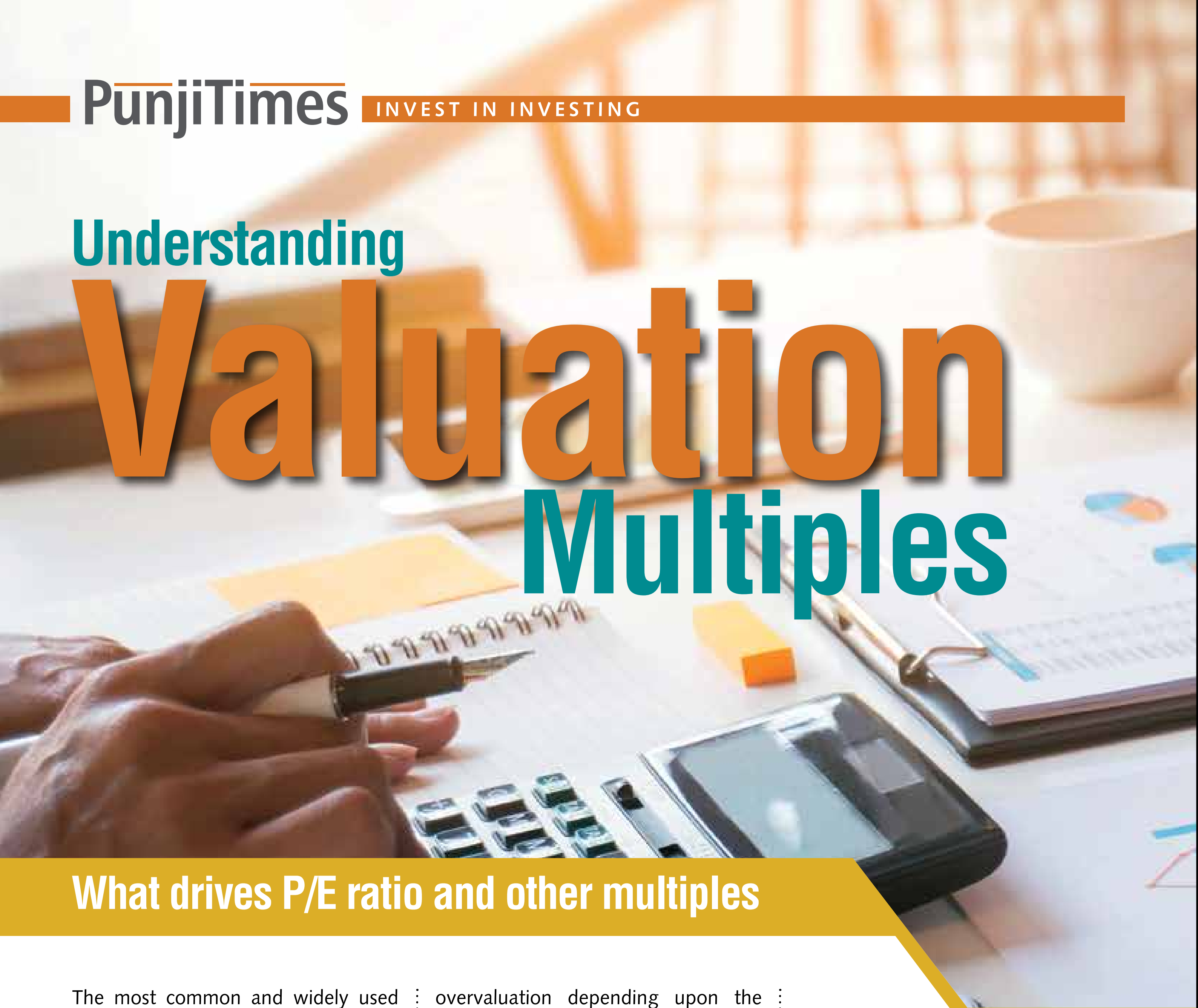
Given the way midcaps and small caps are priced at the moment, we feel domestic flows will start spreading out away from just mid and small caps into some large cap companies. But flows are also a function of market performance. It is very important that the market keeps moving up for people to derive more comfort and keep allocating more but there is no denying the fact that over maybe 5-10 year period the ownership of Indian investors in the market should probably rise a lot more from where it is today.

We recently shut our micro cap fund for fresh flows largely because the size of the fund itself from a liquidity standpoint makes it very difficult to keep finding incremental ideas. We also wanted to temper down expectations a little bit given the way the fund size itself was growing. This one had done very well in the last three years. It is difficult to replicate that level of performance. So we felt it was a good time to consolidate, given the valuation considerations. However, there will always be some ideas. India never runs out of entrepreneurship and it constantly amazes us in terms of newer ideas that keep coming up.

If one looks at sectors overall, one of the underperforming sectors that we like right now is pharmaceuticals. That is something that we think can come back at some stage. We do not see FDA issues being prolonged. The pharma sector has had a couple of tough years and we are hoping that will get sorted out gradually. We have already seen telecom as a sector make a comeback but that is not a sector we have been able to get our hands around yet.

Financial services have been a steady performer right through and that continues to be the largest weight in most portfolios. While that is a space that will keep steadily performing, within that it might be time to start looking at some of the wholesale banks in the private sector. That is an area that we are beginning to look at closely. They have been big underperformers for many years now. However, over the next one year, we foresee that incremental asset deterioration would be very limited and a lot of recognition will come through. Auto component companies, textiles, speciality chemicals and agro commodity stocks are some smaller sectors that what we feel could do well going forward ■

Anup Maheshwari
Executive Vice President - Investments,
DSP Blackrock Mutual Fund



Understanding Valuation Multiples

What drives P/E ratio and other multiples

The most common and widely used method of understanding company valuation is the Price Earning Multiple (or P/E Ratio). It is easy to understand, easy to calculate and makes possible the comparison of stocks across sectors, indices and even countries.

P/E ratio is derived by dividing the Current Market Price to its Earnings Per Share (EPS).

EPS taken in the denominator can be

- Most recent; last financial year or typically rolling last 4 quarters earnings; OR
- Expected future earnings in the next 1-2 financial years

Thus, P/E ratio is $\dfrac{\text{Current Market Price}}{\text{Earnings per Share}}$

The number thus derived is used as an indicator of undervaluation or overvaluation depending upon the interpretation or the comparisons being made.

However, it would have been a mystery to most investors

- Why some stocks/sectors enjoy high P/E or Book Value multiples (like Consumer, Healthcare, Private Banks etc. and others (Commodities, PSU Banks, etc.) stay at low multiples
- Why do multiples of some stocks quote low, while the peer group in the same sector enjoys higher multiples? (HDFC Banks vs Axis Bank Vs ICICI Bank). An investor thinking the stocks with lower multiples to be undervalued may observe that the stock with low multiple stays low while the stock with higher multiple continues to go up.

These and many more questions come in the minds of investors. Here, we try and answer some of the questions as to what drives these multiples and how investors can make superior returns by understanding them.

The factors which drive multiples are:

GROWTH

Generally, Companies/ Sectors that have high growth,` high/huge potential for growth in the long term, growth that is sustainable and higher consistency of growth, will have higher multiples compared to companies/ sectors that have lower growth, lower consistency and uncertain future growth prospects.

Therefore, in India companies that are linked to consumption (FMCG etc.) have generally traded at higher multiples than say companies in commodity sectors whose growth rates are uncertain, since profits tend to be volatile.

CAPITAL EFFICIENCY (RETURN ON EQUITY, RETURN ON CAPITAL EMPLOYED)

Companies/Sectors that have higher RoCE/RoE than peer group or other sectors, generally will have higher multiples companied to companies/ sectors that have lower RoCE/RoE.

CASH FLOWS & FREE CASH FLOWS

Companies that good cash-flows and free cash-flows, generally will have higher multiples than companies that generate lower cash-flows. Here cash-flows are referred to as operating cash-flow, i.e. cash-flow generated from business. Profits ca be manipulated but cash-flows cannot be.

Assessing the health of a business by looking at the Cash-Flows and Free Cash-Flows is quite reliable and a lead indicator. Free cash-flow is the operating cash flow after the capital expenditure and capital for growth requirements has been taken care of. Companies that do not generate adequate positive cash flow (or are poor cash-flow and free cash flow generators), generally, will have lower multiples since it is a sign of poor business economics, and balance sheet is likely to be bloated with high debt. This would first reflect in falling/ lower RoCE/RoE and eventually growth rates. At some point of time these companies may actually not grow at all and may have to sell assets to sustain themselves.

DIVIDENDS AND DIVIDEND PAYOUTS

Dividends are important, since that is a payout the investors/shareholders get from their investments in the company in form of their share of profit generated by the company. Dividend payout is the percentage of profits paid out as dividends. The part of profits that is not paid out as profits is retained for funding future growth. Companies that have high dividend and dividend payouts generally will have higher multiples vs companies that have lower dividends and dividend payouts. This also is an indirect reflection on cash-flows, and expected growth rates and how the growth may be funded.

MANAGEMENT QUALITY & ATTITUDE TOWARDS MINORITY INVESTORS

Management Quality although is a subjective factor, it can be made objective by evaluating and assessing the financials performance over long term, growth trends, balance sheet quality, capital allocation, Return on Capital Employed/Return on Equity etc.

In the next issue, we will explore more topics related to valuation ■

Vivek Mavani

Vivek Mavani is a SEBI Registered Investment Advisor based in Mumbai.

The India Story: Looming Health Crisis and Scarce Health Cover

The recent media reports about India's healthcare scenario narrate a grim story. Despite noteworthy achievements in polio eradication, increase in life expectancy and maternal and neonatal tetanus elimination etc, the country is facing a serious threat from the increasing non-communicable diseases (NCDs) and heart ailments associated with lifestyle changes. NCDs such as diabetes, cardiovascular disease and cancer have become the largest cause of mortality. Indians, who are genetically prone to such diseases, are becoming more exposed to such ailments with changing lifestyle habits. The World Health Organisation estimates that the probability of death between 30 and 70 years from the NCDs in India is 26 per cent. WHO also highlighted that 60 per cent of the 9,816,000 deaths in India in 2014 were on account of NCDs.

In fact WHO had flagged about the looming crisis in its World Health Report 2002. The report had warned that cardiovascular diseases (CVDs) will be the largest cause of death and disability in India by 2020. It is projected that by the year 2020, the burden of cardiovascular diseases in India will surpass that of any other country in the world. According to WHO, almost 2.6 million Indians are predicted to die due to coronary heart disease, which will constitute 54.1% of all CVD deaths in India by 2020. The Global Burden of Disease (GBD) study estimates that 52% of CVD deaths occur below the age of 70 years in India as compared to 23% in Emerging Market Economies, resulting in a profound adverse impact on its economy. Further highlighting the risks, the Global Nutrition Report 2016 notes that in India the risk of impoverishment due to heart disease was 37% greater than for communicable diseases.

SPIRALING MEDICAL COST

As the diseases spread, people have been faced with rising medical bills as cost of treatment escalates. The 2014 survey of the National Sample Survey Office (NSSO) reveals that the cost of treatment rose at a double-digit pace of growth, outpacing average inflation in both rural and urban India over the past decade. Estimates shows that a heart patient spends anything between Rs 1,90,500 to Rs 4,12,750 for Angioplasty, while cost of a Valve Replacement Surgery range from Rs 3,81,000 to Rs 7,62,000. According to the Global Nutrition Report 2016, Cardiovascular Disease patients in India spent 30% of their annual family income on direct Cardiovascular Diseases related health care.

It is not surprising then that the extremely high cost of health care is forcing millions into poverty. The draft National Health Policy 2015 mentions that 63 million Indians face poverty due to health expenses every year. Therefore, health insurance has never been as important as it is today, particularly for heart ailments.

LOWEST HEALTHCARE SPENDING

At the heart of India's growing healthcare crisis is the issue of adequate funding. Despite being the world's third largest economy in terms of its Gross National Income, India's public funding for healthcare is woefully inadequate. According to the WHO's World Health Statistics 2015, India spent 1.16% of its gross domestic product (GDP) on health, which is one of the lowest in the world. Global evidence shows that countries need to spend at least 5-6% of its GDP to meet the basic healthcare needs of its citizens.

SCARCE HEALTH COVERAGE

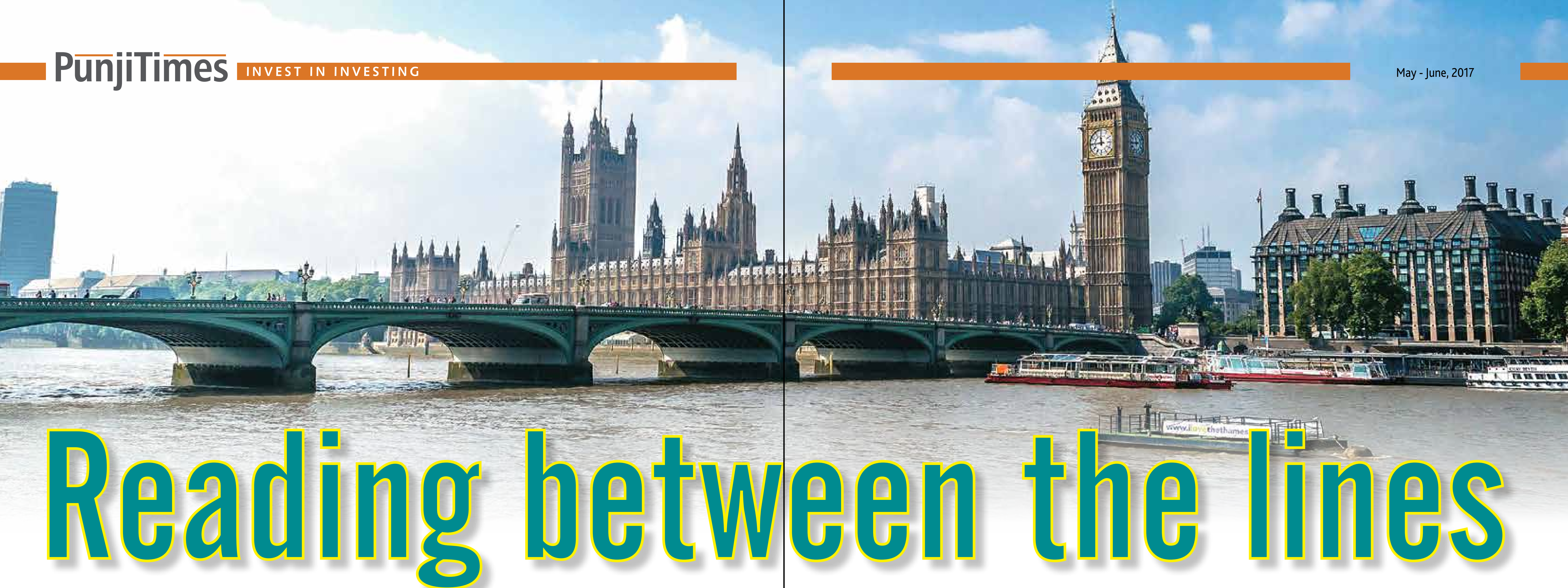
Adding to the woes is the absence of any insurance cover for ailments. Despite government embarking on a Universal Health Coverage mission, over 80% of India's population is not covered under any health insurance scheme, according to the latest NSSO survey. 86% of rural Indian patients and 82% of urban Indian patients do not have access to any form of employer-provided or state-funded insurance. As a result, out-of-pocket health expenditure is higher in India than in many emerging market peers.

The above scenario is a concern for all of us and requires both a robust health system response and coordinated multi-sectoral actions. Providing affordable and accessible healthcare solutions became critical. For this, private sector insurance companies can play a key role by providing comprehensive insurance coverage to the needy.

Keeping this in mind, Aviva has come out with two insurance plans that can help arrange funds in difficult times. These plans can help you avoid being stuck with large medical bills. However, in case of critical illnesses a regular health plan is not enough. For this, specific insurance plans are available in the market.

With medical costs spiraling out of control for ailments such as NCDs, it is imperative for people to plan for such eventualities. As the saying goes, prevention is better than cure, having a health insurance plan which provides treatment to critical illness, will go a long way in helping your family in turbulent times ■

Contributed by
Aviva Life Insurance



Reading between the lines

Successful investment in London's complex property market

Investors in London property have reaped huge returns over the last 20 years and few of us in 1997 could have predicted just how much the market would grow. Someone buying a property in Kensington then is now looking at 732% growth while a property in Marylebone has increased in value by 938%.

Despite recent uncertainty caused by 'Brexit', the UK economy is thriving and the fundamentals of the London property market remain strong. Steady long-term capital growth looks set to continue as does high rental demand. It is all down to supply and demand - London's population is the highest it has ever been and its inhabitants need somewhere to live. Yet despite major redevelopment throughout the capital, there is still insufficient housing to meet demand. Londoners' lifestyles are changing too – they are becoming a generation of renters – not just because the cost of buying a home is out of reach for many, but also because many professionals prefer the flexibility of renting. And as ever, the UK remains a safe haven from unstable political and economic difficulties in other parts of the world. Add to this the current weakness of sterling and for overseas individuals in particular (the UK doesn't impose restrictions on property ownership for overseas investors), now is a good time to buy.

So how do you make that first step into London property investment? The key is to buy the right property in the right area. London is a series of villages that have come together to create one of the world's great 'Super Cities'. But each area retains its own distinct character, with different cultures, demographics and property profiles - from the traditional village feel of up-market Hampstead to the sleek, glass towers of Canary Wharf.

Local knowledge is essential to identify which areas offer the best growth potential, which areas have peaked (for now) in terms of capital value and which areas are seeing the greatest rental demand. Investors should ask about which areas are benefitting from vastly improved transport links such as the new Elizabeth Line (Crossrail). Where are the smartest new developments? Where are the best universities located? Which areas have undergone major regeneration such as Paddington Basin, Docklands, Colindale, Ealing, Greenwich and Nine Elms?

New developments in these types of location are the driving force behind London's booming rental market. Their high spec and amenities offer

a lifestyle that a decade ago was the preserve of prime central London apartment buildings. Today, they are where rental demand is highest. They tend to be in areas which are currently less well-known, on the fringes of prime central London, where sales values are less, so offer higher rental yields than in central London.

Investors must also decide whether they are investing for capital growth, for rental income, or aiming for a mix of both. Will they buy off-plan or a slightly older property? What type of tenant do they wish to attract – a corporate tenant, a young professional, an international student? These are some of the key decisions that an investor needs to keep in mind while looking for the right property to invest in, in London.

London's economy is flourishing – it is an international hub for business, for education and for tourism. And with demand for rental homes continuing to outstrip supply, its property market offers excellent long-term value for investors. The key is to work with experienced professionals who can help you develop a detailed strategy in this diverse and exciting city ■

Vidhur Mehra, Finance Director
Benham & Reeves Residential Lettings

Acumen

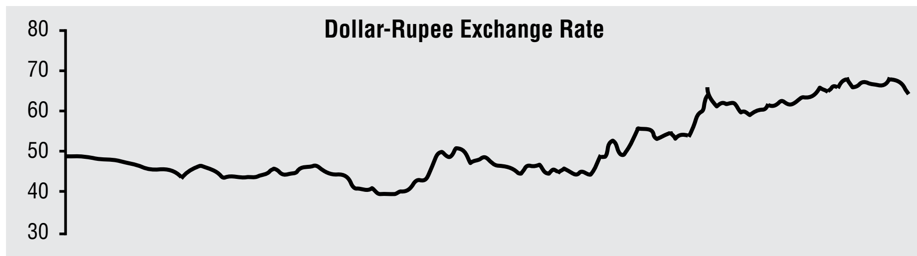
Who's afraid of the big bad Fed?

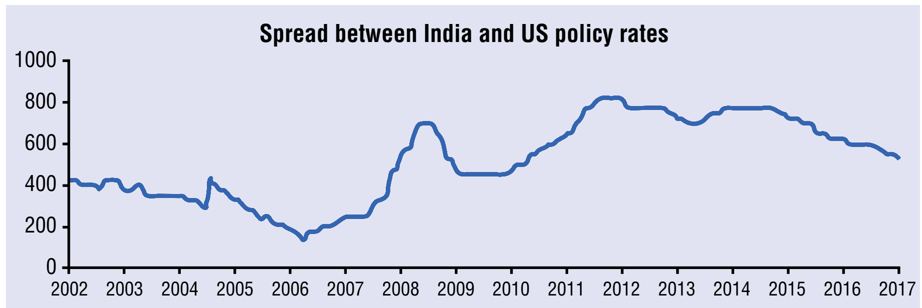
Over the past year, I have faced several questions on what will happen to the Indian currency and bond markets in the wake of the US Federal Reserve's decision to normalize policy through a series of rate hikes. The narrative goes thus:

The Fed hikes rates which reduces the spread between Indian and US rates. This makes US markets more attractive. Fund flows would turn to the US and away from other markets such as India. Consequently we will see an erosion in the value of the Rupee and bond yields will rise.

What is the truth to this narrative? Can we learn from the past experience about the impact Fed policy will have on India? The good news is that we have close to two decades of data to go back and check.

The Reserve Bank of India started using the repo rate as the policy rate in 2001. Since then we have had multiple periods of rising and falling rates both in India and the United States. The chart below overlays the spread between the policy rates in the two countries (lower half of the chart) and the Dollar-Rupee exchange rate (upper half).





In broad generalized terms, we can break down the periods of currency weakness and strength as follows:

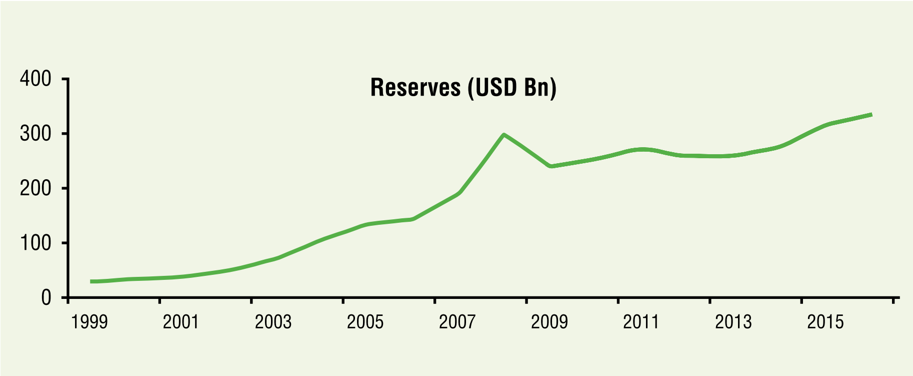
Period	Currency Performance	Spread Change
2002-08	Stable to strong	Reducing spread
2008-09	Weakness	Increasing spread
2009-10	Strong performance	Reducing spread
2010-13	Weakness	Increasing spread
2013-17	Stable with bias to strength	Reducing spread

As we can readily observe, periods of weakness are general accompanied with increasing spread while periods of stability and strength are accompanied by reducing spread.

The actual behavior of the market runs counter to the popular narrative which holds that reducing spread leads to currency weakness. It is remarkable indeed that the false narrative has stayed despite such powerful evidence to the contrary.

SO WHY DOES THE INDIAN RUPEE EXHIBIT SUCH A BEHAVIOR?

First, Indian macro is correlated to global growth. Since US rate increases occur when the Fed is confident about US growth, it stands to reason that Indian exports too are a beneficiary of this uptick in growth cycle. For example, we see the 2002-06 period saw relatively better current account performance compared to the 2008-12 period when global growth was relatively weak.



In the recent past we once again see an improvement in the current account performance (driven both by a fall in oil prices and an improving share of manufacturing exports).

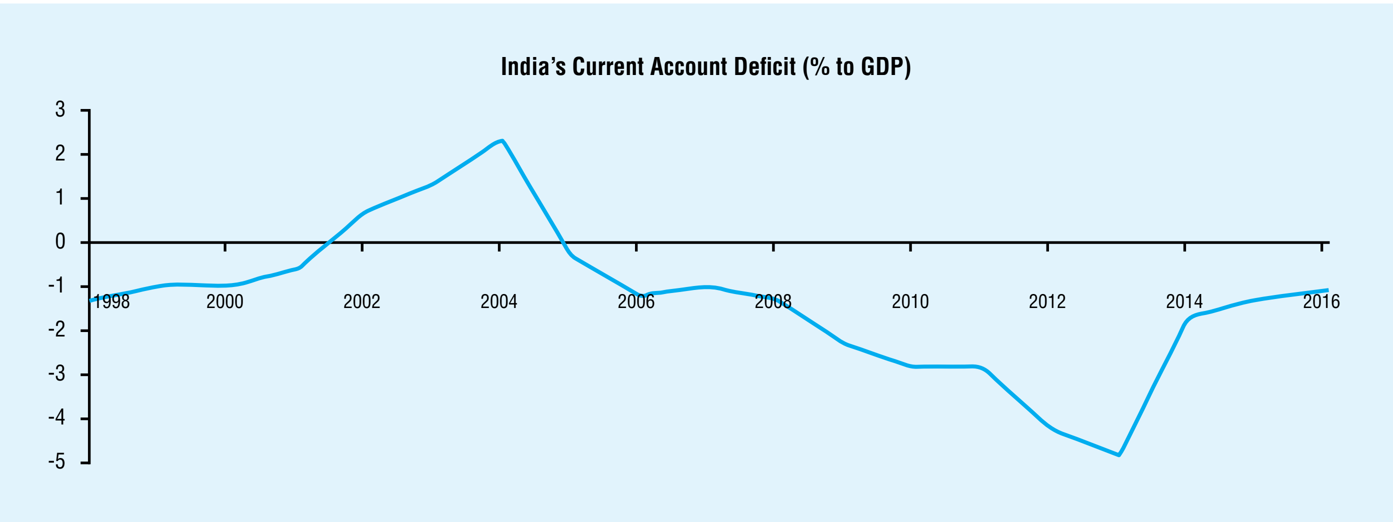
Strong developed world growth leads to strong emerging market growth. This in turn leads to better currency performance.

As a corollary, we see an interesting trend in inflation in the period 2002-08. As global growth strengthened, commodity prices began to rise. This led to a rise in WPI inflation which is heavily weighted to commodities. At the same time, CPI inflation remained well contained – and indeed remained below the rate of WPI inflation through most of this period.

Second, the external situation has stabilized. Current account balance has narrowed, foreign exchange reserves have risen, and the currency is seen as stable.

Finally, India specific risks have receded in recent years. Partly driven by better macro, India is no longer seen as weak. Back in 2013 at the peak of the "taper tantrum," India was facing significant weaknesses all at once. High fiscal and current account deficits limited the ability to defend the currency. Our dependence on short term finance put the currency at risk when this financing became difficult to access.

Now, though, the picture is quite different. India's risk has fallen sharply as our macro and external situation has improved.



India 5 Year Credit Default Swap Spread

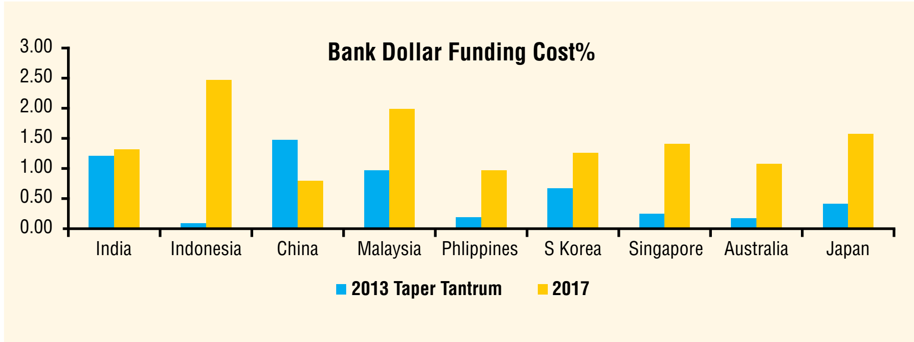
The chart above shows the cost of insuring against Indian sovereign default using credit default swaps. Clearly over the past three years, there has been a material reduction in the perceived risk. In fact the CDS spread is down by two-thirds since late 2013.

This has meant that access to dollar funding has become easier for Indian banks. Unlike in the period from 2010-13, banks are no longer having to pay a large premium to access dollar liquidity. A Bloomberg measure of bank funding (using 3-month funding rate and dollar swaps) shows how different India looks relative to our Asian peers.

WHAT CAN WE LEARN FROM THIS?

First, that we should ignore the popular narrative that Fed rate hikes are bad for us. The Fed raises rates because the US economy is doing well. That is good for global growth and our exports; and in turn keeps the currency stable/strong. Indeed to that extent we should welcome rate hikes.

Second, the external sector is now a point of strength for India. Compared to the taper tantrum period four years ago, various measures of external stability are better today:



Indian banks' funding costs have remained stable since the peak of the taper tantrum, and only China has seen an improvement in the same period. All other countries in the region have seen dollar funding costs rise with the rise in US rates. What is special about India is that while the dollar costs have risen the risk premium for India has fallen to compensate.

lower current account deficit, higher foreign reserves, lower India risks and stable funding costs. Of course, these positives have come thanks to stronger growth at home and weaker oil prices abroad. Thus, we must be awake to the possibility that some risks may yet strike if growth were to turn down or the current account worsens materially from here.

WHAT ARE THE INVESTMENT IMPLICATIONS?

It is said that the past does not repeat, but it might well rhyme. Each period has its own peculiarities but we can certainly learn from the past to get a better understanding of where we stand and what we can expect. For the moment it appears that the US Fed is on a slow pace of rate increases that is consistent with a moderate growth in the US economy. At the same time, India is enjoying a period of currency stability (and strength), low inflation and strong external sector.

We expect there to be limited upside risk to yields because of the Fed action. However we will remain watchful for any adverse development. Domestic factors are expected to play a larger role in determining the RBI's future rate actions and the direction of bond yields.

The RBI is currently maintaining a neutral stance on rates indicating that it is unlikely to cut rates in the near term – with a view to getting inflation down to 4% in the medium term. At the same time, the fiscal situation is tough with the combined deficits of the Centre and States remaining stuck close to 7% of GDP and new G-Sec supply putting pressure on the long end of the curve. At the same time excess liquidity has depressed money market rates.

In this context we prefer to hold short term assets, which are less sensitive to either the fiscal position or RBI actions. The money-bond spread remains near recent highs providing high carry opportunities relative to risk.

As growth – both domestic and global – appears to be on the recovery path, we should also see an improvement in corporate profitability in the next several quarters. This provides us an opportunity to invest – albeit selectively – in non-AAA bonds where the spreads are high relative to the past ■

R. Sivakumar, Head-Fixed Income
Axis Mutual Fund

Expert Speak

The road ahead for the global citizen

"Things are increasingly becoming positive on economic, political and currency front. However, there could be short term intermittent corrections due to global factors and general fatigue of markets which is good as it provides opportunity for markets to consolidate."

The markets have touched an all-time high as a consequence of the events that took place over the past few months. While the abeyance of the CBDT circular helped soothe the nerves of the FII's, the lower-than-expected impact of demonetisation caused India to join the global reflation trade. A prudent budget further helped build momentum and the comments of Donald Trump on the strength of US Dollar eased the rally on the currency that favoured risk in the emerging markets. Last but not least, the increased political stability post the recent state elections have all contributed towards the market surge.

The thumping victory by the ruling party at the center, in arguably the most important state (election-wise) paves the way for the political combine to continue in power well into the next tenure. Considering the reform process the country has been put onto in the last couple of years, the continuity of the regime at the helm of affairs is important to see the implementation of announced reforms.

The implementation of largest indirect reform – Goods & Services Tax (GST) is on track for its implementation on the 1st of July. The bills have been drafted by the GST council in their recent meetings ironing out some of the differences between the members. There have been some concerns over inventory in transition not getting input credit and oversight on profiteering. These have been allayed by the government. Over the next few years, businesses will become more efficient in their operations as 'India' becomes 'One Market'. The tax collections would also improve due to self-regulating nature of the reform. There is an opportunity for the organized players to gain market share from the unorganized ones.

The earnings of corporates have contracted over the last two years (considering Nifty50 companies). FY17 also could close with a tepid 2-3% growth. This fiscal year, the earnings are impacted due to the forex losses in an auto major, NPA recognition by corporate lenders, competitive intensity in telecom and pricing & regulatory issues with Pharma. However, we believe that many of these would reverse in FY18 to clock a double digit growth. The corporates would benefit from increased demand due to recovery from rural economy and transmission of interest rate to companies & consumers.

On the valuation front, the trailing P/E ratio is 15% higher than the 10 year average. As the tepid nature of earnings for the last three years gives way for double digit growth, the P/E ratio would start looking reasonable. On the P/E ratio and Dividend Yield basis the current levels are trading at a discount to 10 year average. So, valuations are still in a reasonable zone.

On the liquidity front, the domestic liquidity has been the bed rock for the strength of equity markets. The SIP book of mutual funds is over Rs. 50,000 crores on an annual basis. The Pension funds are also investing over Rs. 10,000 crore. Hence, even when FYs sold over USD 4.6bn in Q4-CY16, the domestic institutions provided support for the market. Further, FPIs have turned net buyers of over USD 4bn in the last two months. This adds to the liquidity support provided by the DIIs.

On the global front, most strategists are turning bullish on emerging markets (changing their underweight stance as of year-end). The Fed has increased interest rate for the third time in this cycle. It would be measured in its approach to raise rates further not to hamper US economic growth. The inflation has inched up but it is within reasonable limits. The global markets are bringing down expectations of the pace at which Trumponomics would work. This halted the rally in Dollar index and jump up in US bond yields. This is good for emerging market flows.

The recent elections in Netherlands also put a halt to the fears of far-right candidates winning elections. This has reduced probability of far-right candidate wining the French elections due in about a month. There was a fear of exits from European Union and breakdown of European Monetary Union if far right candidates win.

Things are increasingly becoming positive on economic, political and currency front. However, there could be short term intermittent corrections due to global factors and general fatigue of markets which is good as it provides opportunity for markets to consolidate. For the first-time investors, it is a good time to start investing to benefit from the structural long term growth story of India. For those who are already invested, maintaining a well balanced portfolio is a good option. For those who may have an inclination to opportunistically play the market may be aware that it is a difficult thing to do. In the past, there are enough instances where it was difficult to out-smart the market only to re-invest at higher levels.

Keep your eyes on goals and be steady with your investments! ■

Mahesh Patil, Co-Chief Investment Officer, Birla Sun Life Mutual Fund

FAQs

Decoding Insurance Terminology

ANNUITY

It is an insurance plan that pays out regular income periodically. It is often used as part of a retirement portfolio.

BENEFICIARY

The person(s) or entity(ies) (e.g. corporation, trust, etc.) named in the policy as the recipient of insurance proceeds upon the death of the insured.

ENDOWMENT POLICY

An insurance policy where the assured has to pay an annual premium which is determined on the basis of his age at entry and the term of the policy. The insured amount is payable either at the end of specified number of years or upon the death of the insured person, whichever is earlier.

GRACE PERIOD

The length of time (usually 31 days) after a premium is due and unpaid during which the policy, including all riders, remains in force.

INDEMNITY

Legal principle that specifies an insured should not collect more than the actual cash value of a loss but should be restored to approximately the same financial position as existed before the loss.

INSURABLE INTEREST

Insurable interest is a stake in the value of an entity or event for which an insurance policy is purchased to mitigate risk of loss. Without insurable interest, an insurance contract is invalid.

MONEY BACK PLAN

A plan in which part of the sum assured is paid back to the policyholder at regular intervals.

NOMINATION

An act by which the policy holders authorizes another person to receive the policy moneys. The person so authorized is called Nominee.

PAID-UP POLICY

A life insurance policy in which if all the premium payments are complete and the insured is free of all payment obligations, the policy stays intact until insured's death or termination of the policy is called paid-up policy.

PREMIUM

The payment, or one of the regular periodic payments, that a policy holder makes to an insurer in exchange for the insurer's obligation to pay benefits upon the occurrence of the contractually-specified contingency (e.g., death).

PREMIUM BACK TERM INSURANCE PLANS

These provide for refund of all the premiums paid, in the event of th life assured surviving to the end of the policy term. The total sum assured is paid to the beneficiaries in the event death occurs during the policy term.

RIDER

Usually known as an endorsement, a rider is an amendment to the policy used to add or delete coverage

SURRENDER VALUE

The value payable to the policyholder in the event of his deciding to terminate the policy before the maturity of the policy.

TERM INSURANCE

Life insurance payable only if death of insured occurs within a specified time, such as 5 or 10 years, or before a specified age.

WHOLE LIFE INSURANCE

A life insurance policy where benefits are payable to the beneficiary on the death of insured, irrespective of when that may occur. The premium payment can happen for a specified number of years or throughout life ■

Every individual is unique and so are his or her investment needs. Investment planning must always be aligned with one's goals. Hence, our approach is to help you chalk out an investment strategy that is best fit for 'you'.

We see ourselves as educators rather than advisors. Our endeavor is to build awareness about the various kinds of investment products in the market. After all, an informed decision is always a better decision.

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