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November - December, 2017

Anniversary Issue

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From the Editor's Desk

It is with great joy that I present to you the anniversary issue of Punji Times. On behalf of the Meri Punji team, I would like to thank our readers, business associates and everyone associated with the production of this publication, for without your encouragement and enthusiasm, this would not have been possible.

This issue, we bring to you insights into diversified equity funds, systematic transfer plans, home loan and expert views on the Indian economic and financial environment with focus on equity.

You will also find special feature on current investment opportunities resulting from corporate demergers.

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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CONTENTS

THE MIDDLE WAY — Finding Balance through Diversified Equity Funds — 6

SYSTEMATIC TRANSFER PLAN — How to beat Market Volatility — 8

5 MUST-KNOW CONCEPTS — for a New Mutual Fund Investor — 10

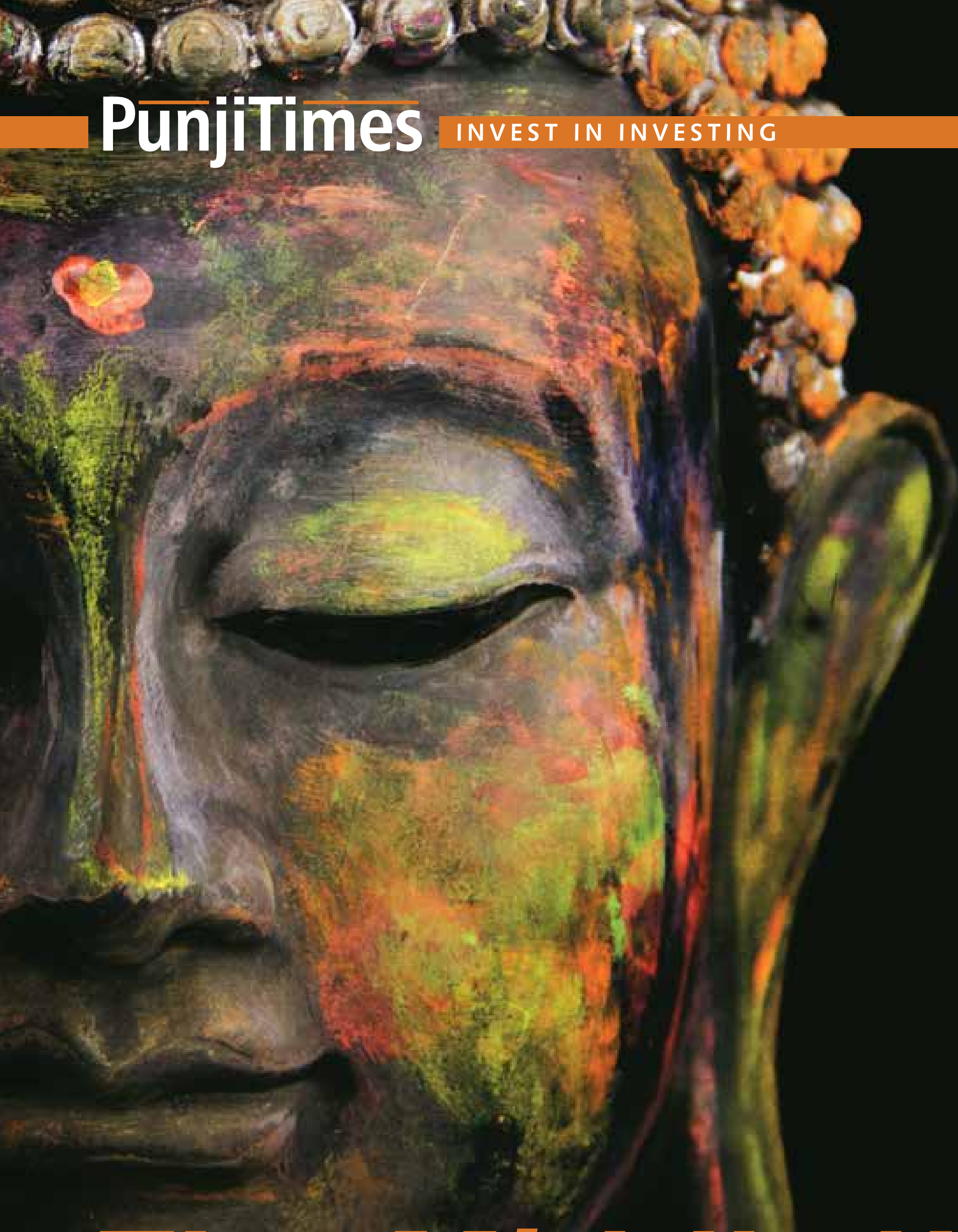
VALUE CREATION — Through Demergers - Part 2 — 12

LIFE INSURANCE COVER — Protect Your Family's Future — 18

HOME LOAN — Building a Secure Future — 22

EXPERT SPEAK — Market Outlook — 24

FAQ — Net Asset Value — 28



The Middle Way

Finding Balance through Diversified Equity Funds

Diversification is imperative for maximising portfolio returns and minimising risk. For investors holding mutual funds, large cap funds are generally considered to be a 'safe' bet while mid and small cap funds are thought of as inherently risky and volatile. However, with diversified equity mutual funds, one can gain exposure to several market caps through one fund.

WHAT ARE DIVERSIFIED EQUITY FUNDS?

Diversified equity funds invest across sectors and market capitalisations, thus ensuring that the negative performance of one sector does not affect the entire portfolio. In this way, diversified funds increase the probability of generating sustainable returns. These funds aim for medium-to-long-term capital appreciation and are suitable for investors with a moderate risk appetite and an investment horizon of 3 - 5 years. They are also known as multi-cap funds, flexi-cap funds or large and mid-cap funds.

Investments made by diversified equity funds are usually vertical in nature, which means a mix of sectors and market caps are evaluated. As opposed to horizontal investments, this ensures a better cover against risk by providing both sectoral and market cap diversification.

While holding too many large-cap funds in your portfolio could stagnate returns, solely investing in mid and small-cap funds could increase portfolio volatility and risk. Diversified equity funds offer a middle path that allows investors to invest in sufficiently diversified holdings by undertaking only moderate risk.

BENEFITS OF INVESTING IN DIVERSIFIED EQUITY FUNDS

Investing in a diversified equity fund holds several benefits:

- **Diversification:** Experts suggest that it is diversification in various asset classes and not individual funds that determines portfolio return. By investing in diversified equity funds, you bypass the need to diversify your portfolio by choosing an already diversified fund that suits your financial objectives and risk appetite. If you are looking for a greater degree of stability in your investments, allocate a larger portion of your investments in diversified funds and the remaining in small and mid-cap funds. However, if aggressive investing with a high risk appetite is your style, mid and small-cap funds would be the ideal avenue for appreciation on long-term investments

- **Stability during market ups and downs:** Because diversified equity funds include stocks of all markets caps, they provide stability in both bull and bear markets. While large-cap stocks tend to veer towards stability in bear markets and moderate appreciation in bull markets, mid and small-cap stocks respond to market stimulations in greater measure - they show higher appreciation in bull markets and depreciation in bear markets. The difference in performance helps balance the fund returns. Additionally, in bear markets, mid and small-cap stocks tend to be volatile even if large-cap stocks depreciate moderately, thus maintaining a balance and allowing investors with varying risk appetites to park their capital in diversified funds

- **Universal appeal:** Diversified funds appeal to all kinds of investors, from risk takers to safe players. Since they also lower the need to diversify, an individual investor managing his own portfolio will find them a convenient option. A diversified fund can provide stability to your portfolio with moderate-to-high returns

- **Tax benefits:** Equity mutual funds enjoy superior tax advantages compared to other asset classes - long-term capital gains (gains on investments held for >12 months) are tax-free while short term capital gains are taxed at just 15%. What's more, the dividends paid out by equity funds are tax-free too

OPTIMISING YOUR PORTFOLIO RETURNS

Equity is a vast asset class comprising of various categories of investments. A diversified equity fund works the best for investors looking for a simple way to diversify their holdings. This type of equity mutual fund is suitable for beginners and moderate risk-takers, usually generating moderate-to-high returns for investors. It has been historically seen that long-term investments in diversified equity funds have beaten returns on bank fixed deposits, gold, and PPF returns with a decent margin. Thus, invest in diversified equity funds to optimise portfolio returns without spending too much time figuring out the nitty-gritties of diversification ■

MUTUAL FUND CATEGORY RETURNS ACROSS DIFFERENT PERIODS

Name of the Category	Returns: 1 Year	Returns: 3 Years	Returns: 5 Years	Returns: 10 Years
Large Cap	15.03%	19.42%	10.79%	14.80%
Mid and Small Cap	28.20%	30.92%	17.47%	18.48%
Large and Mid Cap	21.72%	23.11%	12.59%	17.28%
Diversified Equity Mutual Funds	14.12%	21.73%	12.09%	17.66%

Source: Value Research & CRISIL

Beat Market Volatility with a Systematic Transfer Plan

When investors look to invest their capital in a mutual fund, one of their primary considerations is getting market timing right. Especially when markets are soaring to record highs, investing capital at a go naturally seems like an unproductive exercise. However, with a systematic re-allocation strategy, investors can mitigate the risks involved in their investment while booking better-than-average returns.

WHAT IS A SYSTEMATIC TRANSFER PLAN?

A Systematic Transfer Plan (STP) is an investment strategy involving the transfer of a fixed amount from one fund category to another. It helps the investor alternate their investment between asset classes over a period of time, thus maintaining a balance between risk and return.

Since equity markets are often volatile and could prove tricky for investors to wade through, they often shy away from investing a lump sum amount. An STP takes care of the dilemma by allowing investors to systematically invest in equity funds by investing a lump sum amount in a particular scheme and have a pre-determined amount transferred regularly to another scheme.

Often, an investor will park their capital in a liquid ultra-short-term fund and then transfer to an equity balanced fund.

HOW IT WORKS

To invest in the equity fund using the STP, the investor would first select the fund, decide on the amount, and the frequency of transfer. Most fund houses offer daily, weekly, quarterly, and monthly options to transfer funds.

Let's assume a person wishes to invest Rs. 10 lakhs in an equity mutual fund through an STP. He will first need to choose a debt fund that allows the STP to invest in the equity fund of their choice. Once they've invested their entire capital in the debt fund, they'd need to fix an amount to be transferred to the equity fund and the frequency of transfer. Say, the transfer is fixed at Rs. 1 lakh over 10 monthly installments. Each month will now see a transfer of Rs. 1 lakh from the debt fund to the chosen equity fund.

ADVANTAGES OF INVESTING IN AN STP

- **Cost-averaging:** Much like a Systematic Investment Plan (SIP), an STP requires a fixed amount to be invested in a particular fund at regular intervals. It also offers the same benefit of averaging cost out by purchasing more fund units at a lower NAV and vice versa
- **Portfolio Rebalancing:** A portfolio must remain balanced between debt and equity. An STP helps to this end by reallocating investments from one asset class to the other. When debt allocation increases, the capital can be reallocated to equity and vice versa
- **Consistent Returns:** The capital invested in the debt fund earns interest till it is transferred to the equity fund. Investors thus gain a solid advantage since a debt fund assures higher returns and better performance as compared to a savings bank account

IMPORTANT POINTS TO REMEMBER

- An STP is a systematic transfer from one fund to another where the amount transferred is usually fixed except under a flexi STP
- Different fund houses mandate a different minimum investment amount and may also define the minimum amount of STPs to be invested in
- Usually, capital is transferred from a debt fund to an equity one as the latter is more responsive to the movement of the market
- Investors must always check the exit load period of the debt fund when investing through the STP route ■

TYPES OF STPS

Fund houses offer a variety of STP options to investors:

- **Capital Appreciation:** In this category, the appreciated capital gets transferred to the target (equity) fund while the capital part remains in the source fund
- **Fixed STP:** In this category, the transferable amount is fixed by the investor at the time of investment
- **Flexi STP:** Under the Flexi option, the investor is offered the choice to transfer a variable amount. While the fixed amount is some minimum sum, the variable amount depends on the volatility of the market. If the NAV of the target fund falls, investment can be increased to benefit from the falling prices and if the NAV rises, the minimum transfer amount can be invested to mitigate the risk of increasing prices

Must-Know 5 Concepts for a New Mutual Fund Investor

1 NET ASSET VALUE

When you invest in a mutual fund, you are allotted fund units based on the price of the scheme on a given day – known as the Net Asset Value (NAV). All open-end schemes (schemes that are open for buying and selling on a day-to-day basis) declare their NAV daily. Thus, if you invested Rs. 12,000 in a scheme with an NAV of Rs. 12, you'd be allotted 1,000 (12,000/12) units. It's the same when you want to sell (redeem) your units - just multiply the NAV by the number of units to arrive at the redemption (sale) value.

2 OPEN-END FUNDS

Open-end funds allow investors to buy or sell units at the NAV on a given business day. They are available for subscription and repurchase on a continuous basis and do not have a fixed maturity period. Investors can conveniently buy and sell units at a particular day's NAV. The key feature of open-end schemes is liquidity. There is no compulsory lock-in (other than in ELSS etc.) but these funds may have exit loads i.e. penalties introduced to ensure that investors adhere to the ideal holding pattern of the scheme.

3 INVESTMENT OBJECTIVE

The investment objective of a scheme provides a flavour of the kind of instruments it would invest in. For example, funds could invest in equity, debt or both. The investment objective also indicates a broadly-worded investment time frame. This term is critical as it decides the fate of your investment. As a thumb rule, one needs to shield against inflation over the long-term and against volatility in the short-term. In the pecking order of risk, liquid funds are the least volatile as they continuously invest in instruments that are extremely short-term in nature (maturing in a few days) and at the other extreme, we have equity funds wherein returns are not even remotely predictable over the short-term and can be highly volatile.

Within debt funds too, funds with a lower average maturity are ideal for short-term holding as they are well-protected from fluctuating interest rate movements. However, holding them for more than their average maturity period may not get you optimal results. There are various types of debt funds based on the average maturity of the instruments invested in. Although debt funds are less risky than equity funds, they are still subject to market volatility. The level of volatility, therefore, depends on the average maturity of the specific portfolio.

The higher the average maturity, the greater the uncertainty in the short-term, resulting in greater volatility. Conversely, the lower the average maturity, the greater the certainty, which in turn lowers volatility.

4 START SMALL. OPEN A SLEEP-IN-PEACE ACCOUNT

Embracing risk is easier said than done. For this depends on not just your personality but also your risk-assuming capacity (depending on prior commitments, loans, dependants etc.). If you are a first-time investor and are sceptical of investing big sums of money, start a Sleep-in-Peace account wherein you commit to a series of monthly payments over a period of 3-5 years. This ensures that your acquisition cost is averaged through market highs and lows and more importantly, disciplines you such that you actually spend less when you have less to spend.

You can invest amounts as low as Rs. 1,000 with no upper limit in most schemes. There are no monthly or annual maintenance charges even if you don't transact further. No wonder that we call them Sleep-in-Peace accounts. This discipline serves to suppress the natural instinct of halting investment in a depressed market or investing brazenly in buoyant markets. However, do remember that rupee cost averaging does not guarantee a profit and does not protect against investment losses in declining markets. It only ensures that by disciplining your entry into markets, you override sentiments and thus stand to reduce the risk of committing a fixed sum when markets are rising.

5 DON'T LOOK AT THE NAV ALONE. LOOK AT PAST PERFORMANCE AND OTHER FEATURES

A mutual fund displays the portfolio of each scheme on its website, which contains a detailed disclosure on various instruments and companies that the scheme has invested in. Whilst choosing a fund don't go for one with a low NAV in the hope that you will get a greater number of units. What actually matters is the percentage return on your invested amount. For example, given a similar performance level at 10% appreciation, a Rs. 10 NAV will rise to Rs. 11 whereas a fund with a NAV of Rs. 100 will rise to Rs. 110. It is worthwhile to consider other factors (performance track record, fund management, volatility etc.) that determine portfolio return.

In all probability, a fund will have a high NAV on account of good performance over the years. Imagine two schemes, a new scheme A with NAV of Rs. 15 and an old scheme B with NAV of Rs. 150. Further, assume that both these schemes hold shares of the same companies and in the same proportion. If the holdings of both these schemes were to increase by 10%, the NAV of the both the schemes would go up by 10%. The NAV of scheme A would then be Rs. 16.5 and that of scheme B would be Rs. 165. Thus, we see that the initial NAV figures of Rs. 15 or Rs. 150 do not matter at all ■

Contributed by **Axis Mutual Fund**

Value Creation Through Demergers

Part-2

In India, old corporate houses have historically housed multiple businesses in a single company. This has, in fact, been not just an Indian but an Asian phenomenon. In such cases, demerger of business can present investors with great investment opportunities.

A demerger can lead to unlocking of value, greater management focus and a better potential for organic and inorganic growth.

In the last issue, we discussed how Indian corporates have lately been unlocking value by demerging different business units into separate companies. In this issue, we discuss more such instances. But first, a refresher on demergers – a historical perspective, reasons why corporates do it, and its implications for investors.

In India, old corporate houses have historically housed multiple businesses in a single company. This has, in fact, been not just an Indian but an Asian phenomenon. Often, multiple businesses had little or nothing in common except parentage (Promoters). Operating management was usually promoter-driven and in some cases professionals at senior levels too were also appointed by promoters.

One of the major reasons for multi-business conglomerates coming into existence was a limited access to capital for new ventures. Corporate houses thus entered new businesses with the financial and capital backing of established businesses.

Another reason for established corporates to enter new markets was to tap into opportunities, either by forward integration into new products and geographies or backward integration to secure raw materials. The businesses dynamics of the expansion were often different from that of their core business. As a result, business risks, profitability, cash-flows, return on capital etc. were also quite different, although the businesses were related.

In both cases, there was often a cross-subsidisation and diversion of cash-flows from profitable (cash-cow) businesses to not-so-profitable (often loss-making) businesses. Transparency in terms of profitability and cash flows of different businesses was low, making it difficult to value each business independently. As a result, markets rarely valued such companies to their full potential, typically discounting their sum-of-parts value.

CREATING VALUE THROUGH DEMERGERS

An emerging trend in the last decade has been to demerge businesses and list them as separate companies. Three primary motivations have backed this shift:

- Unlocking value since the conglomerate was valued at a significant discount to the sum of its parts
- Greater management focus driven by professional management teams, with promoters providing strategic direction and deciding on capital allocation across businesses
- Better potential to pursue Mergers and Acquisition (M&A) opportunities for individual businesses on the strength of their own balance sheets

So far, this practice has proved to be hugely rewarding for investors.

Let us look at examples of how some demergers have played out recently viz. Grasim-Aditya Birla Capital, Zee Media-Diligent Media, and Tube Investments-TI Financial Holdings. The CESC demerger is yet to play out, hence an opportunity is still available.

GRASIM DEMERGES ITS FINANCIAL SERVICES BUSINESSES INTO ADITYA BIRLA CAPITAL

Post the merger of Grasim and Aditya Birla Nuvo (ABNL), earlier in 2017, Grasim demerged the financial services business of the Aditya Birla Group. The demerged company, Aditya Birla Capital (ABCL) was listed as a separate entity in the first week of September.

All of Aditya Birla Group's Financial Services businesses and investments are held in ABCL. This includes its holdings in Birla Sunlife Life Insurance, Birla Sunlife Asset Management Company, Aditya Birla Money, the NBFC, and the Private Equity business.

Investors in Grasim were offered free shares of ABCL in the ratio of 140:100 i.e. 140 shares of ABCL for 100 shares of Grasim. An investment in 100 shares of Grasim (pre-demerger) would have led to a payoff as shown in the table below, in just 3 months of the investment and in a relatively low-risk transaction.

(figures in Rs./share)	Grasim pre-demerger 100 shares	Grasim post-demerger 100 shares	ABCL post-demerger 140 shares	Total / % Gains
Market Price	1,100	1,200	200	
Investment Amount	1,10,000	1,20,000	28,000	35%

TUBE INVESTMENTS OF INDIA (TIIL) DEMERGES THE GROUP'S FINANCIAL SERVICES HOLDING

TIIL, the flagship company of the Murugappa Group, was engaged in manufacturing activities and also held investments in Financial Services.

Manufacturing: TI Cycles is the second largest bicycle manufacturer in India, besides manufacturing tubes, strips, tubular, components, fitness products, chains for automobiles sector and industrials applications, roll-formed sections, and other metal formed products, industrial gears, etc.

Financial Services: The interests in Financial Services were held by TIIL via Cholamandalam Investment & Finance which includes the NBFC, Equity Brokerage, Asset Management businesses besides two insurance joint ventures viz. Cholamandalam MS General Insurance, Chola MS Risk Service Limited.

Since the financial services business had little synergies with the manufacturing business except a common holding company, its value wasn't accurately reflected in the overall valuations of TIIL.

Thus, the Murugappa Group decided to demerge the manufacturing business from its holdings in the financial services business by creating TI Financial Holdings Ltd.

Investors in Tube Investments of India were allotted free shares in TI Financial Holdings in the ratio 1:1. The demerged company is yet to get listed.

ZEE MEDIA CORPORATION (ZMC) DEMERGES ITS PRINT MEDIA BUSINESS

ZMC is the news business arm of the Zee Group. Besides running multiple news channels (both national and regional), it has stake in 45 radio channels and the Mumbai edition of the newspaper, DNA (Daily News & Analysis).

The demerger was to separate the print media business into Diligent Media Corporation Limited (DMC) with investors in Zee Media getting shares allotted in DMC in the ratio of 1:4 (one share of DMC for 4 shares held in Zee Media). Shares of Diligent Media are yet to get listed.

While the demergers in Grasim, Tube Investments and Zee media have already occurred, the CESC demerger is a potential opportunity for the next few months.

CESC PROPOSES DEMERGERS OF VARIOUS BUSINESSES

CESC, the flagship company of RP-Sanjiv Goenka Group, is primarily a power generation and distribution company but also holds significant investments in Retail (Spencer's), Business Process Outsourcing (First Source Solutions) besides investments in Real Estate, Renewable Energy (wind and solar) etc. It is proposed to be demerged into four separate companies. The details of their business profiles and swap ratios for every 10 shares are given in the table below:

Demerged Company	Business Profile	Ratio
CESC (residual)	Power Distribution	5
CESC Genco	Power Generation (thermal, & renewables)	5
Spencer's Retail	Retailing & e-commerce	6
CESC Ventures	BPO, Real Estate and other Investments	2

The demerger is awaiting requisite approvals so there is still time to invest. Given the nature of the proposed restructuring, it promises to be not only interesting but is also likely to be very profitable for the investors.

With currently available details about the likely balance sheets of the four companies, post the demerger, back-of-the-envelope calculations suggest at least 30-50% gains in the next one year by buying CESC pre-demerger and selling the spun off entities post-demerger

Vivek Mavani

Vivek Mavani is a SEBI Registered Investment Advisor based in Mumbai

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Mutual fund investments are subject to market risks, read all scheme related documents carefully.

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iProbono is a non-profit working to provide access to quality pro bono legal assistance to civil society and disadvantaged individuals, while building a culture of pro bono in the legal profession.

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HOW IT WORKS

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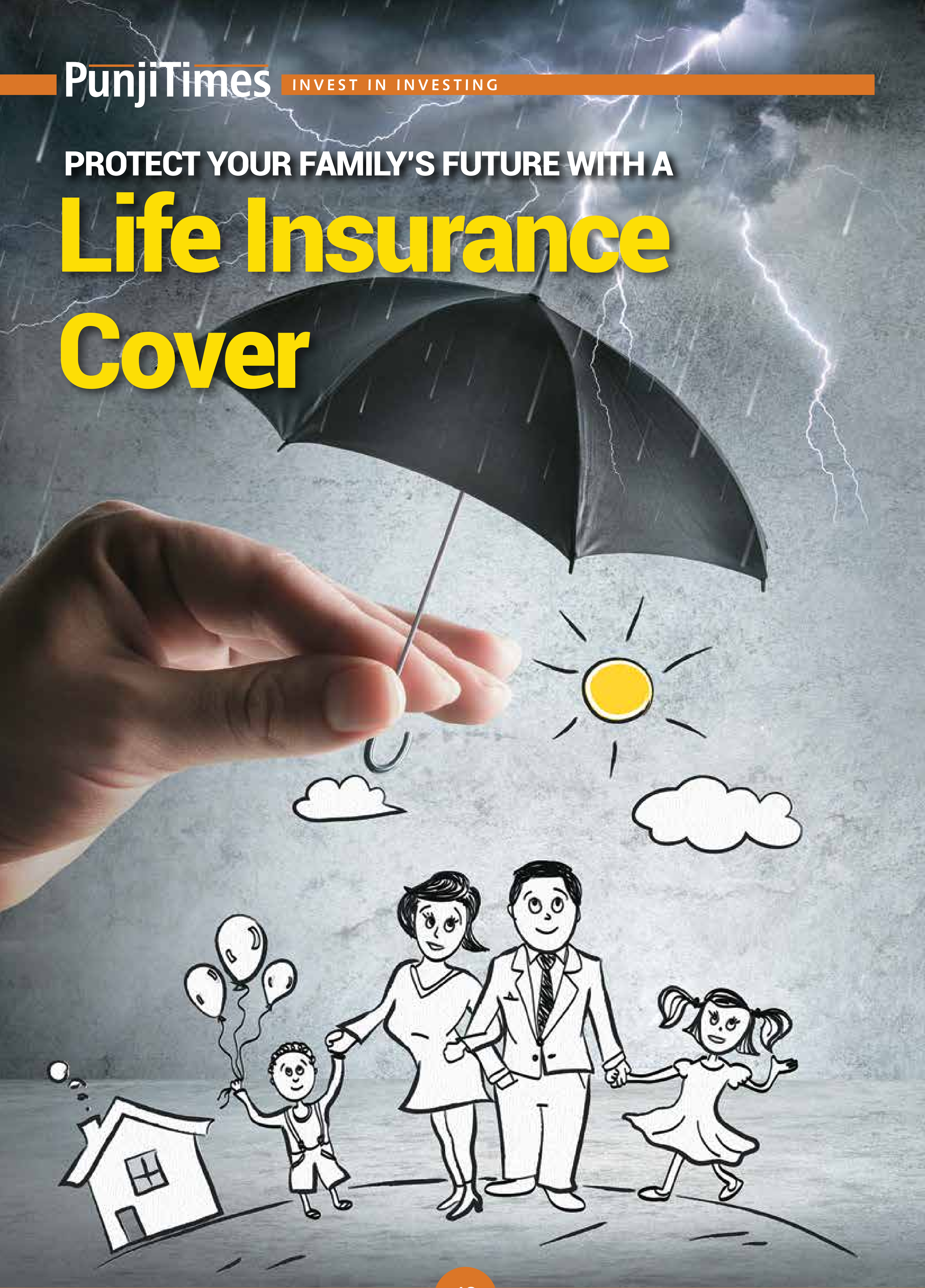


PROTECT YOUR FAMILY'S FUTURE WITH A Life Insurance Cover

While 'living in the present' is an oft-repeated adage, planning for the future is just as essential. And when it comes to securing your loved ones' future, the importance of a life insurance cover becomes even clearer. In the absence of a life cover, one's family may have to drastically alter their lifestyle, especially if the deceased happens to be the sole breadwinner. Such is the lack of awareness surrounding a life cover that life insurance penetration in 2015 was only 2.7% against a global average of 3.5%[1].

WHAT IS A LIFE INSURANCE POLICY?

A life insurance policy provides a financial cover to dependants in the event of the policy holder's death. Under such a policy, the insurer (insuring company) promises to pay a sum greater than or equal to the life risk cover against the events covered under the policy. The company is liable to pay this amount to the nominee. To buy this guarantee, the policy holder is required to pay a fixed premium to the company over the term of the policy.

WHY DO I NEED A LIFE INSURANCE COVER?

A life insurance cover may well be one of the most important purchases you make for your family. In addition to providing a primary source of income for the policy holder's dependants, a life insurance cover provides several other benefits.

HOW MUCH LIFE COVER DO I NEED?

The premium payable depends on your risk cover. However, the life risk cover depends on one's annual income, financial goals, and assets and liabilities.

Thus, while deciding your life risk cover, you must take into account your annual expenses, home or personal loans, and future goals such as children's education, retirement planning and so on. Experts often recommend buying a life cover for an amount which, if invested in a safe instrument, could provide a regular income for the dependants to be able to maintain a lifestyle similar to their current one. This means that one should add their liabilities to the insurance amount.

One of the most basic methods suggests the cover should be 15 times one's annual income. Say, a person earns Rs. 80,000 per month and thus has an annual income Rs. 9.60 lakhs. They would need to buy a life cover (assuming no liabilities) of Rs. 1.44 crore (15 times of Rs. 9.60 lakhs).

If they bought this life cover, their family would earn about Rs. 84,000 per month by investing the claim amount of Rs. 1.44 crore in a Bank Fixed Deposit at an annual interest of 7%, thus getting rid of financial worries.

Thus, while deciding the life cover amount, a fact-finding exercise surrounding one's existing financial position is important, subsequently identifying future and current goals while analysing asset and liabilities.

WHAT ARE THE DIFFERENT TYPES OF INSURANCE PLANS?

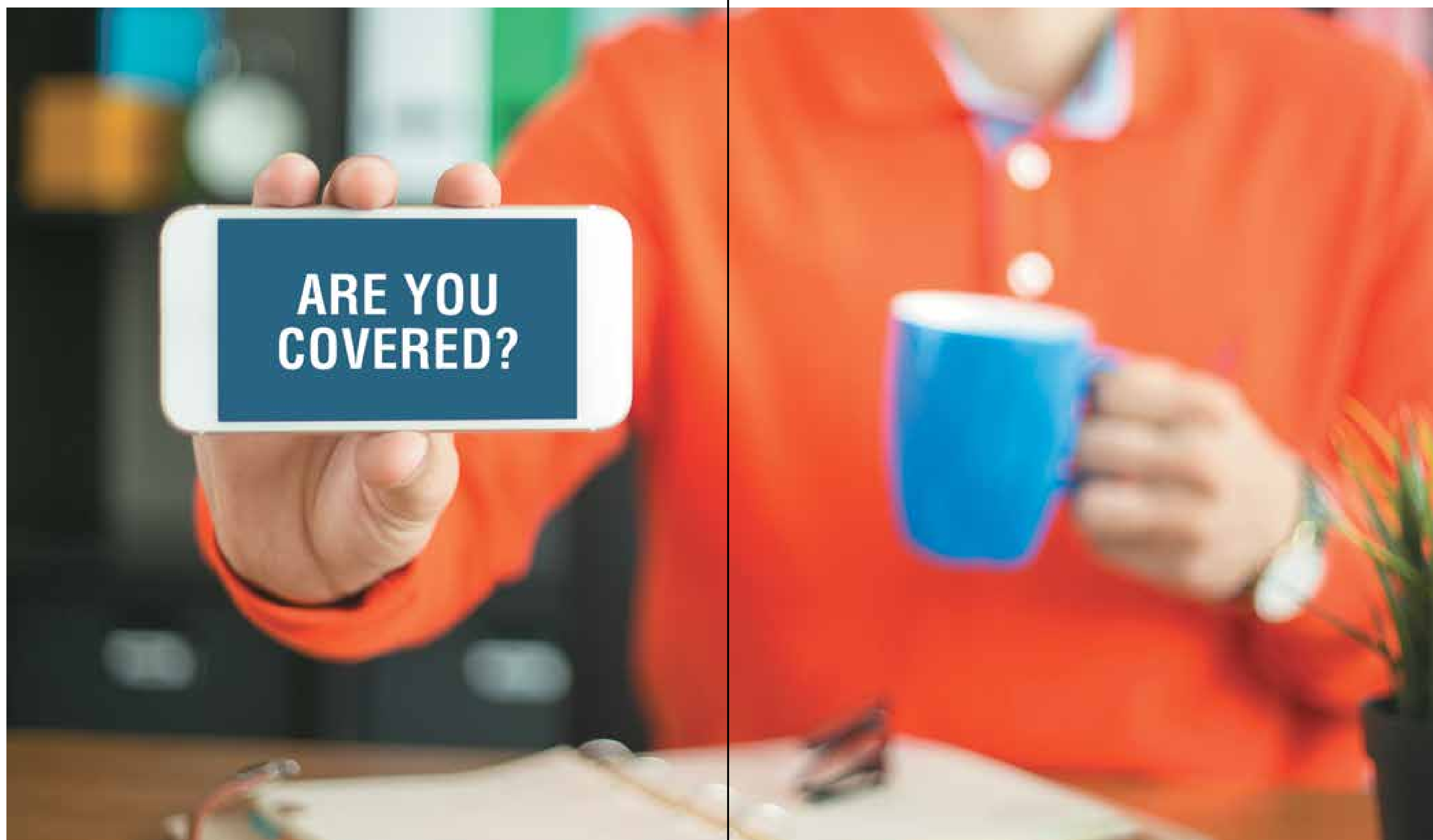
You can choose from a variety of insurance plans to meet your financial needs:

- **Term Insurance:** Term life insurance is the most common and cost-effective plan that provides a significant life cover for a small premium. A term insurance plans is designed to protect your family against unforeseen circumstances by providing them adequate financial security. It is also the cheapest in terms of premium payable
- **Whole Life Insurance:** A whole life insurance plan covers the holder over their lifetime. The maturity proceeds are paid to the

Provides Financial Security to Your Family

As inevitable an emotional loss is in the event of unforeseen death, a life insurance cover compensates for the financial loss. A life insurance policy pays a lump sum benefit in the event of untimely death of the policy holder. Through the cover, the family can meet its financial needs and overcome potential crises. Thus, an insurance policy offers financial protection to the policy holder's family, a benefit that assumes even greater importance if they happen to be the sole breadwinner.

[1] "Life insurance penetration turns the corner, up a tad in 2015", The Hindu Businessline, Dec 2016. http://www.thehindubusinessline.com/money-and-banking/insurance-penetration/article9431009.ece



Inculcates the Habit of Saving

A life insurance policy inculcates the habit of saving in the holder since it requires regular premium payments on their part. As is obvious, saving regularly is paramount to meeting financial goals. By linking premium payments with their salary account, the holder can automatically set aside a sum they may otherwise find hard to save.

Provides a Tax-Saving Avenue

Under section 80C of the Income Tax Act, 1961, the policy holder can avail tax benefits of up to Rs. 1.5 lakhs annually. Under Section 10(10D) of the Act, future receipts and claims, including maturity proceeds received by the holder or the claim received by the nominee, are also tax-free.

nominee on the insured's death. Usually, no term period is defined, with some insurers even offering plans till about 100 years of age

- **Endowment Plan:** An endowment plan offers life insurance benefit along with an assured amount to be returned to the holder on policy maturity. Thus, the holder can expect a good lump-sum amount to meet their future needs. These plans normally pay the life cover amount along with accrued bonuses at the end of the policy term

- **Money Back Plan:** A money back plan provides periodic liquidity to the policy holder by paying a fixed percentage of the sum assured at fixed intervals. For example, if the money back policy assures a sum of Rs. 5 lakhs over 20 years, the plan would pay 20% of the sum assured after every 5 years. The holder would then receive Rs. 1 lakh at the end of the 5th, 10th and 15th year. At the end of the 20th year, the balance sum assured of Rs. 2 lakhs plus accrued bonuses would be paid out

- **Child Insurance:** A child insurance plan is a regular life insurance plan that comes with a unique benefit called 'Waiver of Premium'. This means that if the holder dies prematurely, the death benefit would be paid to the nominee immediately. However, unlike other plans, it continues till the end of the policy term and pays the specified maturity benefit again. Thus, it assures that the parent's financial plan for his child's future remains intact even if he or she is not around at that point in time

- **Unit-Linked Insurance Plan:** A unit-linked insurance plan or ULIP is a market-linked insurance plan that offers the best of both worlds- investments and insurance- under a single plan. It offers investment options such as equity, debt and balanced portfolios based on one's risk profile

- **Retirement Plan:** A retirement or pension plan enables the holder to build a corpus for their financial needs post-retirement. On maturity, this corpus is used to generate a regular income called annuity or pension and paid out monthly, quarterly or annually

A life insurance plan is an essential part of one's investment and savings portfolio. However, a life insurance plan should be purchased depending on your short and long-term goals and not on the basis of a trend. By investing in an amount adequate enough to provide a regular source of income to your family, you can protect their financial future ■

Helps in Meeting Financial Goals

Planning for financial goals and saving for them must start at the beginning of one's career. Life insurance aids financial planning by ensuring financial goals are met even if a sole breadwinner is not around in the event of an untimely death. Insurance companies offer plans designed to cater to various financial goals – whether it be planning for a child's higher education, retirement or making provisions for loans in the event of the holder's untimely demise. There are various life insurance plans in the market tailor-made to meet specific goals.

Build a secure future with a HOME LOAN

Buying a home they can truly call their own is a dream most people nurture. When it comes to actually realising the dream, careful planning surrounding the layout, budget, prospective builders and various other factors is required, often in discussion with the family members involved. Post these discussions, one typically requires financing to buy the house of their choice. This type of financing is popularly known as a home loan.

WHAT IS A HOME LOAN?

Individuals who wish to purchase or construct a house typically secure a home loan. A home loan is a loan offered by a bank or a housing finance company with the property mortgaged to the lender as security till repayment. Normally, the home loan is repaid in equated monthly instalments (EMIs).

WHAT IS THE MAXIMUM AMOUNT I CAN BORROW?

The loan amount will normally depend on the income level of the borrower (which is used to determine their EMI payment capacity) and their credit score. Typically, the maximum loan offered is up to 90% of the house cost, provided the requisite conditions are met.

WHAT ARE THE DIFFERENT TYPES OF LOAN RATES?

Interest rates for home loans are of two types - fixed or floating. Depending on the requirement and profile of the borrower, the lender can choose to offer either a fixed or a floating rate or a mix of the two.

The fixed loan rate comes at a pre-determined interest rate for a fixed period, post which it is subject to a floating rate. A floating rate, however, changes during its tenure in accordance with the reference rate it is tied to, which in turn depends on economic conditions.

WHAT TAX BENEFITS DO HOME LOANS OFFER?

A home loan comes with a variety of Income Tax benefits, which can be broadly categorised into three parts –

1. Under Section 24 of the Income Tax Act (1961), a borrower can claim a deduction of Rs. 2 lakhs on the interest paid if the property is self-occupied.
2. Under Section 80C of the Income Tax Act (1961), a borrower can claim a deduction of Rs. 1.5 lakhs on the principal repayment for a self-occupied property. This amount is inclusive of PPF deposits, insurance premiums, ELSS mutual funds, fixed deposits etc.
3. Under section 80EE, Rs. 50,000 can be claimed as "interest on home loan" if the home loan has been availed FY 2016-17 onwards, the value of the house is less than Rs. 50 lakhs, the loan amount is less than Rs. 35 lakhs and the borrower doesn't own any other property on the date of loan sanction. The good news is, this deduction is over and above the Rs. 2 lakhs limit under Section 24.

WHAT OTHER BENEFITS DOES A HOME LOAN OFFER?

The benefits of a home loan aren't limited to tax savings; it offers a host of other benefits.

A good investment

Because property prices appreciate over time, a home proves to be a good long-term investment, providing a substantial return on investment if held over a long period. Moreover, owning your house is a much better deal than living in a rented property as the rent can often equal the EMI of the house.

Helps you build a credit history

When you pay your EMIs on time, it demonstrates your creditworthiness to other lenders, thus helping you build a positive credit history. An enhancement in your credit score simplifies the process of securing future loans for education, personal use, vehicle etc.

Your property works as a retirement plan

Often times, people aren't able to build a retirement corpus while they're still employed, owing to unforeseen expenses and unfavourable circumstances. To meet financial needs later on in life, you don't need to sell your property. Instead, you can turn your existing home into a retirement corpus through a reverse mortgage loan, even as you enjoy the benefits of occupying it.

While every major expense in life should not see you running to the bank for a loan, taking a home loan is a different ball game. With a home loan, not only do you enjoy tax benefits but you also have a safe place you can call yours, do up the way you want, and most importantly, build an asset that acts as a cushion against financial volatility after retirement ■

Expert Speak

Dear Friends,

The market continues to swing back and forth. As I write this, it is consolidating at its peak but remains steady. On one hand, growth moderation has been cause for concern but on the other, there is an upswing in industrial production as marked by the IIP. In July, IIP grew by 1.2% Y-o-Y against -0.1% in June. In August 2017, exports picked up by 10% over the previous year. However, we will have to wait and see if this trade growth is sustainable.

The fact remains that issues persist. However, structural reforms are being pushed and initiatives for transparency in capital management, tax compliance, and general corporate governance may stimulate entrepreneurship and result in sustainable long-term growth. Having said that, much needs to be done on the policy front. The initial teething troubles, however temporary, carry an economic cost. Simplification and ease of doing business are the hallmarks of GST and must be upheld.

In line with expectations, the RBI's Monetary Policy Committee (MPC) kept policy rates unchanged in October 2017. As a result, the repo rate remains at 6%. Even while the policy rates were left unchanged, the RBI cut SLR (Statutory Liquidity Ratio) by 50bps to 19.5% of NDTL (Net Demand and Time Liabilities). The decision of the MPC is consistent with the neutral stance of monetary policy in consonance with the objective of achieving the medium-term target for consumer price index (CPI) inflation of 4% (+/- 2 %), even while supporting growth.

RBI acknowledged the loss of growth momentum and the near-term impact of GST. Growth forecast for FY18 on the basis of Real GVA (Gross Value Added) was therefore reduced from 7.3% (August 2017 projection) to 6. 7%. At the same time, inflation as measured by the Consumer Price Index (CPI) is expected to rise from its current level and range between 4.2-4.6% in the second half of this year, including the house rent allowance hike by the Centre. This compares to the projection of 4-4.5% for the second half of the year made in August 2017.

RBI's stance on inflation remains largely unchanged even while they do recognise the slowdown in economic growth. It does appear that the door for a further policy rate cut later in the year has not yet been completely shut and the future course of policy action would depend on a host of domestic and international economic developments. The policy also focused on the need for better transmission of policy rates in the form of lower lending rates by the banking system. The internal study group constituted to study this aspect has put forth its recommendations and RBI will take a final view after taking into account feedback on the same.

Growth may now increasingly be dependent on the swift resolution of stressed banking assets and the resumption of banking credit to the commercial sector.

Against this backdrop, market valuations may appear to be on the higher side, especially to those comparing their experiences with the 2007-08 market. We forget that back then, the market fell because the world was suffering a major crisis. No such shock risk is currently on the horizon, at least in the financial space.

Moreover, FII sentiments steered the market in 2008. In 2017, domestic institutions, especially Mutual Funds, have emerged as a major force in the equities market and are adding depth to it. It's likely that major indices may remain range-bound with some volatility from time to time.

Growth may now increasingly be dependent on the swift resolution of the stressed banking assets and the resumption of banking credit to the commercial sector

EQUITY VIEW

Indian equity markets faced a volatile month in September 2017. Concerns over slowing economic growth, rising inflation, higher Current Account Deficit (CAD), rupee depreciation against the dollar, and fears of a global conflict with North Korea impacted the domestic markets. FIIs were net sellers in to the tune of USD 1.8 Bn while Domestic Institutional Investors (DIIs) were net buyers to the tune of USD 3.2 Bn. With fears of a growth slowdown on account of near-term disruptions due to the implementation of GST, there were some expectations of an announcement of a fiscal stimulus by the central government. However, the borrowing calendar released by RBI towards the end of the month showed the government sticking to the budgeted borrowing program. Against the backdrop of macro uncertainty, we are now close to the Q2FY18 earnings season. After a few quarters of muted showing, there is hope of some improvement in corporate earnings momentum on the back of recovery in consumption demand.

Post the implementation of GST, there have been visible signs of a recovery in the economy though the pace of recovery has been gradual. While re-stocking and an early festive season is driving growth in some segments, there are still hiccups over the implementation of GST. Auto sales

had a second consecutive good month with double-digit sales growth. The performance of trade, power, domestic air traffic, and rail freight has also been encouraging. On the negative side, petrol and diesel consumption, muted readings on PMIs, sluggish capex and credit indicators are still a drag. Expectations remain of long term improvement in tax-GDP with better compliance.

India's current account deficit increased to 2.4% of GDP in Q1FY18 from 0.1% in Q1FY17, largely on account of the widening of the trade deficit from USD 24 Bn to USD 41 Bn. While exports were up 11% YoY in the quarter, imports were up 27% YoY. Within imports, gold jumped 187% YoY from USD 4 Bn to USD 11 Bn. While the CAD widened, the Capital account flows were robust at USD 25 Bn on account of strong growth in FDI and portfolio flows. As a result, the balance of payments (BoP) increased by USD 11 Bn during the quarter. Overvaluation in real terms and widening CAD could put pressure on the INR to gradually depreciate from hereon.

We estimate FY18 CAD/GDP at 2% as compared to 0.7% in FY17. However, despite the widening of the CAD, it is likely that the overall BoP in FY18 would likely continue to remain in surplus. We however do factor in some slowdown in flows in the latter part of FY18 as real interest differentials reduce. While the INR has been appreciating for most of FY18 thus far, from here on we factor in some gradual weakness in the INR. A lot of direction of the rupee movement would continue to be determined by the dollar which would be a function of GDP growth, inflation, policy rate movement and the balance sheet tightening undertaken by the US Fed ■

Nilesh Shah,
Managing Director,
Kotak Mutual Fund

DEBT OUTLOOK

Items	Sep-17	Aug-17	Change
Reverse Repo	5.75%	5.75%	Nil
Repo	6.00%	6.00%	Nil
CRR	4.00%	4.00%	Nil
SLR	20.00%	20.00%	Nil
Mibor Overnight	6.05%	5.96%	9 bps
Call(O/N)	5.95%	5.83%	12 bps
CBLO	5.55%	5.67%	- 12 bps
1 yr T Bill	6.23%	6.25%	- 2 bps
10 G Sec	6.66%	6.53%	3 bps
5 Year AAA	7.19%	7.05%	14 bps
USD/INR	Rs. 65.35	Rs. 64.02	-1.33paise

Source: RBI; Bloomberg

- The RBI has made the future course of interest rates dependent on inflation trajectory and GDP growth
- Given the CPI trajectory, we believe inflation is likely to be under the RBI threshold. However we will have to wait till Dec-17 at the least to be sure of the same, since RBI may be seeking additional data to react
- We have Q2 GDP data release in the end of November. This is likely to be benign and may raise the expectation of a cut
- The yield curve is likely to be steep. However, the long end yields are touching 7.50% on annualised basis and therefore might see stability soon
- In the near term, we expect the 10 year gilt to trade in the 6.75%-6.60% band till any further trigger
- The corporate bond 18-36 month yields are expected to remain stable and the curve will remain steep

Net Asset Value

WHAT IS NET ASSET VALUE (NAV)?

The Net Asset Value (NAV) of a scheme is the market value of its assets minus liabilities. The per-unit NAV on a given day is arrived at by dividing the NAV of the scheme by the number of outstanding units.

Typically, NAV is calculated by summing up the current market values of all securities in the fund, adding cash and accrued income, subtracting liabilities and dividing the result by the number of outstanding units.

For instance:

Total Value of Securities (Equity, Bonds, Debentures etc.)	Rs. 1,000
Cash	Rs. 1,500
Liabilities	Rs. 500
Total Outstanding Units	100
NAV [(1000+1500-500)/100]	Rs. 20 per unit

CAN THE SALE PRICE BE DIFFERENT FROM THE NAV?

The sale price of a scheme can be different from the NAV due to exit load. For example, if the current NAV of a scheme is Rs. 10 and the exit load is 1.5%, the effective sale price would be Rs. 9.85.

WHAT IS REDEMPTION/REPURCHASE PRICE?

Redemption price is the price received by the customer on selling units of an open-ended scheme to the fund. Repurchase price refers to the price at which a close-ended scheme repurchases its units. Both of these may be lower than the NAV in case the fund levies an exit load.

WHAT IS A SWITCH?

Some mutual funds provide the investor with an option to shift his investment from one scheme to another within a particular fund. Switching allows the investor to move their investment wholly or partly from one scheme to another in accordance with his altered investment needs, risk profile or circumstances during his lifetime. The units of the new scheme are purchased at the current scheme's NAV with the fund sometimes levying a switching fee.

CAN THE NAV OF A DEBT FUND FALL?

A debt fund invests in fixed-income instruments such as a Commercial Paper, Certificate of Deposit, Debenture or Bond. While the interest rate on these instruments is fixed throughout their tenure, their market value fluctuates based on how the interest rates in the economy move.

A debt fund's NAV is the market value of its portfolio at a given point in time. As interest rates vacillate, the market value of fixed-income instruments and, as a result, the NAV of a debt fund changes ■

ARE YOU ON THE SAME PAGE AS YOUR KIDS ABOUT THEIR FUTURE?

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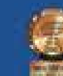

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