Vol.:2, Issue:10

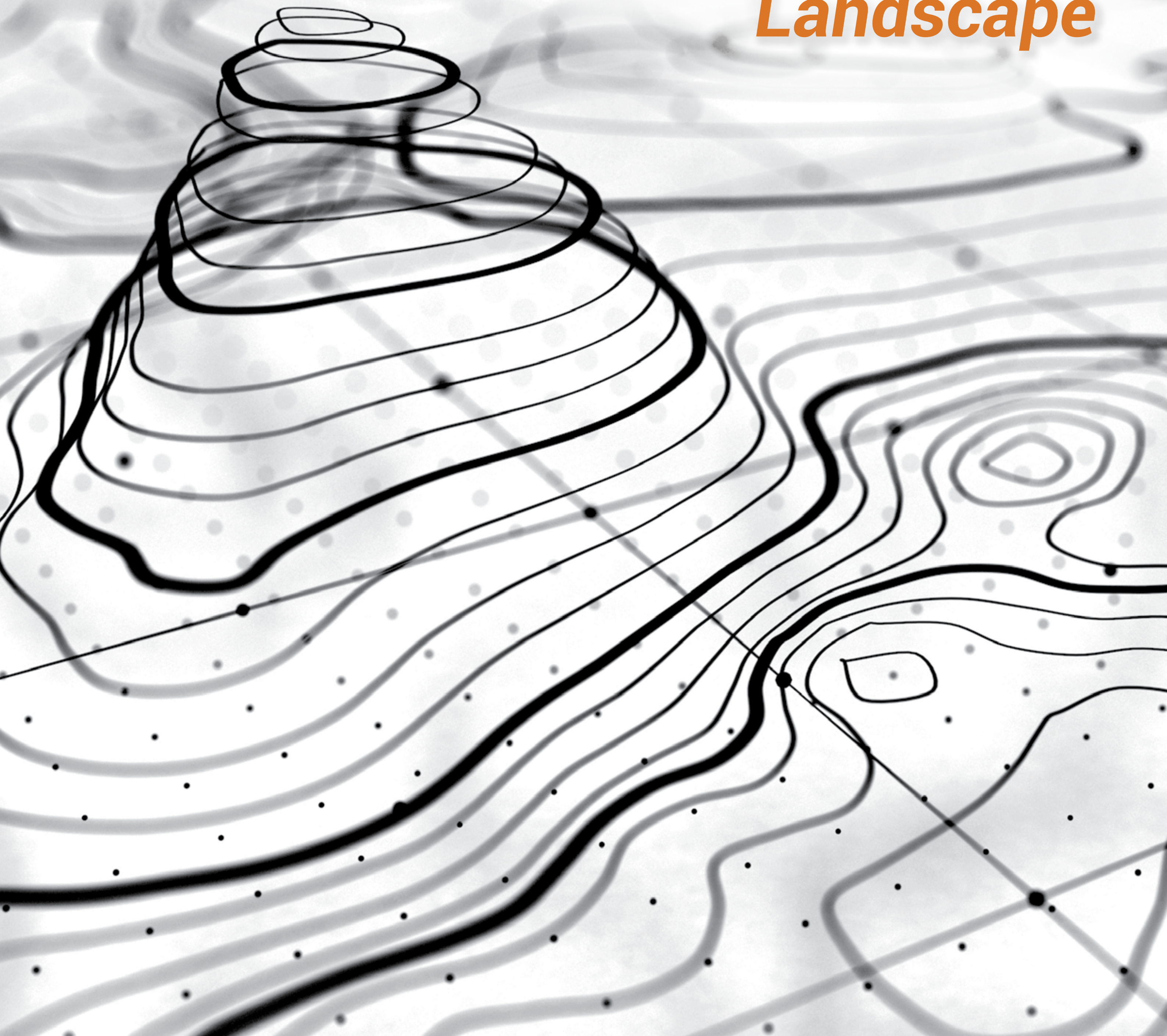
For free distribution

PunjiTimes

May - June, 2018

INVEST IN INVESTING

Traversing The Investment Landscape



SIP

ke chhote doses for healthy investments.

Jo samjhega, wo hi payega!

SIP (Systematic Investment Plan) in Mutual Funds allows you to make investments with as low as ₹ 1,000 a month.

Gives you peace of mind against market volatility | Invest in a consistent and disciplined manner | Assists you in long-term wealth creation

₹2,500 per month x 30 years has become ₹1.01 crores*.

To know more about SIP, contact your Financial Advisor or Call: 1800 222 626 | assetmanagement.kotak.com

An Investor Education Initiative From

*An SIP amount of ₹2,500 per month invested in S&P BSE Sensex, started on 1st Oct. 1986 and continued till 1st Sep. 2016 on first business day of each month, would have grown to an amount of ₹1,01,29,499 as on 30th Sep. 2016. This is an XIRR of 13.36%. Past performance may or may not be sustained in future. You should consult your Financial Advisor before taking any investment decision. XIRR returns are annualized returns for a series of cash flows like in the case of monthly SIPs.

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

A mutual fund that can keep you smiling through market ups and downs.

- Invests in both equity and debt
- Aims to provide monthly tax-free dividends#
- Provides tax-free returns##

Balanced Advantage Fund

An Open Ended Equity Fund

To invest, please consult your **Financial Advisor**

Visit **www.iciciprumf.com** | Download **IPRUTOUCH** App

#Distribution of dividends is subject to approval from Trustees and availability of distributable surplus.
##As per prevailing tax laws for FY17, returns earned after one year are tax-free.

ICICI Prudential Balanced Advantage Fund is suitable for investors who are seeking*:
• Long term wealth creation solution • An equity fund that aims for growth by investing in equity and derivatives
* Investors should consult their financial advisers if in doubt about whether the product is suitable for them.

RISKOMETER
Investors understand that their principal will be at moderately high risk

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

From the
Editor’s Desk

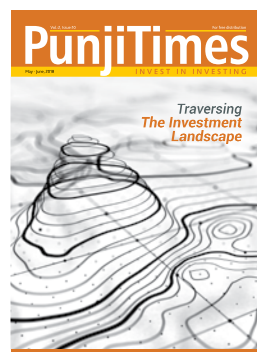
Over the years, the investment landscape has become increasingly complex. Thanks to globalisation, no part of the world is isolated from events happening in other lands. If one were to try and represent the market as a mathematical equation, it would have innumerable variables, each of which affect the outcome to different degrees. Globally rising interest rates, currency fluctuations, crude oil prices, financial policies and of course, elections are only some of these variables. As investors, it is important we understand how these affect our investments so we make informed decisions and stay on the most efficient track to our financial destinations.

This issue, we bring to you expert views on the global economic and financial environment with specific focus on the domestic market. Inside, you will find an insightful economic analysis of rising interest rates and their effect on lenders, borrowers, and investors.

We also have special features on equity linked saving scheme, business insurance and different kinds of investing strategies.

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.*

Disclaimer

The opinions, beliefs and viewpoints expressed by the various authors in this magazine do not necessarily reflect the opinions, beliefs, and viewpoints of the owner/publisher. Placing an advertisement in this magazine does not imply endorsement by the owner/publisher. All content in this magazine is for informative purposes only and does not amount to professional advice. The publisher does not seek to influence the reader’s financial decision-making in any way whatsoever. Please consult your financial advisor before taking any decision. The intellectual property rights in all material contained in this magazine are owned by Meri Punji IMF Private Limited (formerly known as P S Management Solutions Pvt. Ltd.), and can be reproduced only after obtaining prior written consent.

PunjiTimes
INVEST IN INVESTING

VOLUME: 2

ISSUE: May-June, 2018

PERIODICITY: Bi-Monthly

RNI: DELENG/2017/72098

PUBLISHER: Parveen Neb

EDITOR-IN-CHIEF: Tushar Goyal

WEBSITE: www.meripunji.com

EDITORIAL OFFICE:
Meri Punji IMF Private Limited
(Formerly known as P S Management Solutions Pvt. Ltd.)
203, Siddharth Chambers, Hauz Khas,
Kalu Sarai, (Adj. Azad Apts.)
New Delhi-110016

EMAIL: info@meripunji.com

COPYRIGHT:
Meri Punji IMF Private Limited
(Formerly known as P S Management Solutions Pvt. Ltd.)
All rights reserved worldwide.

CONTENT SUPPORT:
Anil K Goyal & Associates
www.akgassociates.com

Ukti Language Services
www.ukti.co.in

DESIGNED BY:
Silenttpartners
www.silenttpartners.com

PRINTED AT:
Ess Pee Printers
1/12 and 13 DSIDC Shed, Tigri,
New Delhi-110062

PUBLISHED BY:
Meri Punji IMF Private Limited
(Formerly known as P S Management Solutions Pvt. Ltd.)
203, Siddharth Chambers, Hauz Khas,
Kalu Sarai, (Adj. Azad Apts.)
New Delhi-110016

Meri Punji IMF Private Limited does not take responsibility for returning unsolicited publication material.

May-June, 2018

CONTENTS

PERPETUAL INVESTMENT MACHINE
Using ELSS to Fund Tax Savings 6

SYSTEMATIC VS LUMP SUM INVESTMENT
Make the Right Investment Choice 8

Secure Your Health with
MEDICLAIM INSURANCE 10

How to Read
A MUTUAL FUND FACTSHEET 12

EQUITY INVESTING
Quality Matters 14

BUSINESS INSURANCE
An Opportunity for SMEs 16

RISING INTEREST RATES
An Economic Analysis 18

EXPERT SPEAK
Market Outlook 22

FAQs
ELSS: Comparative Analysis 24

Using ELSS to Fund Tax Savings

For centuries, scientists were intrigued with the idea of a perpetual motion machine, a device that remains forever in motion after an initial energy input. It is interesting to note its applications in the world of finance where investors must make some basic investments to put into motion a perpetual investment and wealth creation machinery. Let's see how this works.

TAX SAVINGS UNDER SECTION 80C

Under Section 80C of the Income Tax Act, 1961, a taxpayer is allowed to claim tax deductions of up to Rs 1.5 lakhs from their taxable income by investing in eligible schemes. These are Employee Provident Fund (EPF), National Savings Certificates (NSC), Public Provident Fund (PPF), five-year tax saver bank fixed deposits, five-year tax saver post office time deposits, Senior Citizens Savings Schemes (SCSS), Sukanya Samriddhi Yojana (SSY), life insurance premiums, and tax-saver mutual funds or Equity Linked Savings Schemes (ELSS). While SCSS and SSY are relevant only to specific demographic profiles, the other options are available to a large base of taxpayers.

Out of these, ELSS proves to be the best tax-saving option for wealth creation. Not only is it a tax-friendly investment option, it also offers higher liquidity as compared to the rest. ELSS investments come with a lock-in period of just three years while the other investments have much longer lock-in periods. Let's see how ELSS can be used for efficient tax planning, effectively creating a perpetual investment machine.

TAX PLANNING WITH ELSS

Say, an investor falls in the highest tax bracket (30%) and begins their tax saving on April 1, 2017 by investing Rs. 1 lakh in an ELSS fund. They invest the same amount next year for FY 2019 tax saving. In 2019, they do this for FY 2020 tax saving, with each investment locked in for three years from its investment date.

In 2020, the investment made in 2017 is no longer locked in. Say, the NAV of the fund on April 2, 2017 was Rs. 25 and that on April 5, 2020 is Rs. 40. This means they can use their 2017 ELSS investment to fund their investment for 2020; all they need to do is redeem the required number of units (at the prevailing NAV) and reinvest them for tax savings. Similarly, in 2021, the 2018 ELSS investment is free with additional free un-redeemed units from 2017. This process of redeeming the required number of units and re-investing them can go on forever.

Thus, ELSS is a good option for tax-savings that locks in your investment for three years. This means that if you invest any sum in year 1, 2 and 3, your investment in year 1 will be free for redemption in year 4. In year 4, the same amount can be reinvested as fresh investment under 80C. Not only do you not have to save for this amount, but your investment also grows over this 3-year period, leaving you with excess funds.

In this way, the machine continues to work perpetually for you year 4 onwards and you don't need to actively track your 80C investments after the first three years.

WHAT MAKES ELSS SUITED FOR PERPETUAL INVESTMENT?

While the concept can theoretically work for any 80C investment, ELSS proves to be a superior choice for the several advantages it offers:

- The initial investment required is the lowest for ELSS. It also has the shortest lock-in period; while other options mandate at least five years, ELSS requires a commitment of only three years
- ELSS potentially offers higher returns. In the long-term, wealth creation through this route is likely to be substantially higher because of superior returns and the power of compounding
- While ELSS redemptions come with a 10% tax, the gains over three years can easily cover this cost

FUNDING TAX SAVINGS WITH ELSS

The ELSS strategy for tax-saving is simple and easy to execute. Thus, just like perpetual motion machines remain in constant motion after the application of some initial force, our 'perpetual investment machine' retains a continuous investment cycle after the initial three-year investment. Investors are advised to discuss this strategy for tax planning in greater detail with their financial advisors ■

Systematic Vs Lump Sum INVESTMENT

Make the Right Investment Choice

Even as the concept of Systematic Investment Plans (SIP) gains currency, investors are often confronted with the age old choice between systematic and lump sum investing. A pertinent question remains – which of the two results in higher future returns? That it's fair to compare the approaches is a matter of some debate. While investors will come across literature arguing in favour of one against the other, making the right investment choice ultimately rests on understanding the difference between the two.

A major difference is in the cash flows – an investor with money at hand will be comfortable investing a lump sum amount, whereas in case of an SIP, the investor may not possess a lump sum amount but expects a regular income in the future. For a person with not enough lump sum amount, investing at a go is infeasible. Similarly, for someone with an uncertain future income, SIPs remain out of question.

IS A SYSTEMATIC INVESTMENT PLAN RIGHT FOR YOU?

An SIP offers investors convenience in terms of distributing their investment over several years such that they do not have to part with lump sums to make it work. In fact, investments through this route can be automated such that a fixed sum is debited from the bank account each month.

The SIP route is best suited for young investors, who may want to start as small as Rs. 500 per month, thus allowing them a flavour of investing even at a small scale. It is also suitable for individuals with a regular income and surplus. SIPs offer the flexibility to continue investments even when a month is missed or there is an additional investment because of excess surplus.

SIPs are also useful in determining the exact amount an investor must set aside to achieve long-term financial objectives.

SHOULD YOU OPT FOR LUMP SUM INVESTING?

The lump sum mode allows individuals with a large corpus to invest at a go, ensuring money does not lie idle in a bank account. Thus, lump sum investing is ideal for seasoned investors who have generated large sums which they wish to reinvest at once. Individuals with uncertain income but substantial cash flow may also prefer to invest via lump sum. This allows them to stay invested despite erratic cash flows, aiding them during lean times when they can withdraw from the lump sum using a Systematic Withdrawal Plan. Here, they aren't required to redeem the entire corpus but only a stipulated amount at a time while the rest of it keeps earning returns.

THE HYBRID OPTION

A third, hybrid option is also available wherein investors can opt for a liquid fund with a Systematic Transfer Plan (STP). Say, an investor has a lump sum amount but is not confident about timing the market. They also doesn't want their funds to lie idle in a bank account generating a paltry return. In such a case, they can invest the lump sum in a short-term, liquid fund and do a STP into their desired mutual fund scheme. Here, a fixed amount is transferred from a liquid fund to another fund – equity, balanced fund etc.

By investing in this manner, firstly, the investor doesn't let funds sit idle and earns an interest higher than the bank rate. Secondly, the investor also enjoys the benefits of rupee cost averaging by buying less or more units depending on the price.

MAKE A SMART INVESTMENT DECISION

Investors must ultimately choose a method that works for them based on their income, cash flow and financial goals. Those with a regular income can safely invest in a SIP and those with a lump sum amount but not sure about market timing can opt for the hybrid route.

Moreover, investors don't need to limit themselves to a definitive mode. They can invest in a SIP if they have a regular income and boost their portfolio by investing through lump sum whenever they have a surplus. For those with a large surplus and a low risk appetite, an STP can offer the best of both worlds. Make an informed choice by consulting your advisor or financial planner ■

Secure Your Health with Mediclaim Insurance

The human body is a machinery, albeit a unique one, that needs continual repair and maintenance. This often means significant medical costs. There is no denying the fact that, today, medical expenses are on a rise and our health on a decline. When tough times hit, the cost of medical care can be a huge blow to your finances. However, most of us still remain ignorant of the need to plan for financial emergencies arising out of an accident or sudden illness. One must be adequately insured against health risks and purchase a good medical cover in the form of a Mediclaim policy, which ensures a stress-free treatment at a quality hospital.

WHAT IS MEDICLAIM?

A Mediclaim insurance policy is an economical way of financially preparing for medical emergencies. It takes care of medical expenses related to hospitalisation on an illness, accident or surgery, provided one is admitted for more than 24 hours. It covers various hospitalisation costs - treatment, surgery, room rental, ambulance etc. and those incurred about 60 days post hospitalisation. The bills are settled either through a cashless treatment facility or reimbursement offered by the insurance company. Thus, it is important to invest in a Mediclaim policy to safeguard your financial well-being.

As a variant of Mediclaim, critical illness policies are now available to cover the huge costs that arise in case of terminal diseases - heart ailments, cancer etc. where the sum assured is disbursed when policy claim conditions are satisfied (irrespective of whether any expenses have yet been incurred). A Mediclaim policy also offers tax deductions on premiums paid under Section 80(D) of the Income Tax Act, 1961, when it is paid by any mode other than cash.

How is it different from health insurance?

Health Insurance	Mediclaim
Offers a comprehensive health cover - hospitalisation expenses, pre and post-hospitalisation expenses, pharmacy bills, and ambulance fees, covering over 25 critical illnesses	Covers hospitalisation expenses and treatments toward accident and pre-specified illnesses, subject to a specific limit
The cover is high - up to Rs. 60 lakhs	Cover is lower - up to Rs. 5 lakhs
No further claims can be made once a claim is settled	Any number of claims can be made, subject to the sum assured limit

TYPES OF MEDICLAIM POLICIES

There are predominantly two types of Mediclaims –

- Individual Plan – Specific coverage, called sum insured, for an individual
- Family Plan – This involves buying a sum insured not specific to a particular person but for the whole family, also known as Floater Policy. This is ideal for a family of four or less

Say, a family of four - husband, wife, and two kids – purchases a Rs. 1 lakh cover for each member. If anyone meets with an accident and is hospitalised, the insurer will pay an amount up to the limit specific to the person. But if the family had a floater policy of, say, up to Rs. 3 lakhs for the entire family, the cover would be up to Rs. 3 lakhs. If the family fully used the float in a year, the insurance company wouldn't be liable to pay anything in the event of either the same or another person's hospitalisation.

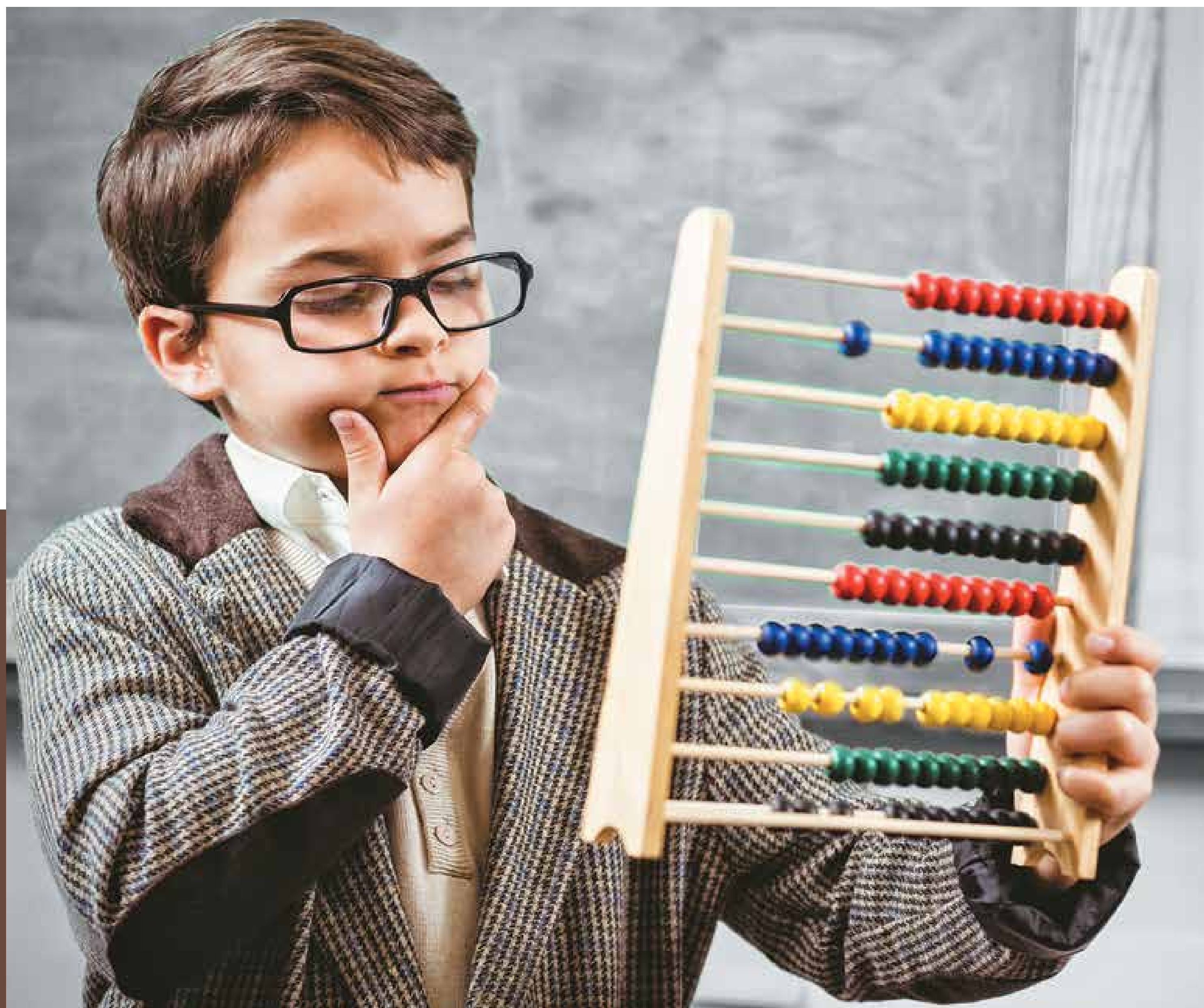
Senior citizens were earlier not covered under Mediclaim but this is now changing. Star Health and Max Bupa offer policies till seventy five years of age, a clear shift in the mindset of the industry towards the acceptance of longevity.

THINGS TO CONSIDER WHEN BUYING MEDICLAIM

Investing in Mediclaim is a prudent decision, which needs an equally prudent consideration of several associated factors:

- Sum insured (coverage amount): When choosing the coverage amount, consider factors like rising healthcare costs, rate of inflation, etc. If you happen to live in a metro, the cost of hospitalisation will be higher compared to that in rural areas. Additionally, if you would like to cover dependants too, a higher sum insured is required
- Individual vs family floater: This is an entirely personal decision. Those unmarried can opt for the individual policy. But if you would like to cover your entire family, a floater plan is the ideal choice. Floater plans also happen to be easier on the pocket due to the discounts offered by the insurance companies

As a prudent practice, opt for a Rs. 10-15 lakhs cover. At the minimum, get insured for Rs. 5 lakhs. However, be sure to consult a financial advisor to zero in on the right Mediclaim plan for you and your family ■



How to Read a Mutual Fund Factsheet

As mutual funds become the preferred route of investment for many, an enhanced understanding of associated terms can help one become a better investor. Asset Management Companies (AMCs) publish an important document called the factsheet that acts as a monthly report detailing information for each active scheme. Nowadays, this is easily available online on an AMC's website. The information contained in it can also be found on various mutual fund research websites.

Decoding a factsheet requires an understanding of its various elements. Let's look at some of the most important ones.

SCHEME-RELATED INFORMATION

Typically, the top section of a factsheet provides useful scheme-related information that tells you about the fund manager's strategy - whether they invest in small cap, mid cap or large cap assets. The factsheet will also give details of the fund manager - the person ultimately responsible for managing fund money and fund performance. Because the manager directly impacts your returns, it is important to know their track record. The factsheet will also lay out an investment objective, a general statement indicating the objective of the scheme - capital appreciation or income or both.

SECTOR-RELATED INFORMATION

If the fund's allocation is biased towards a few sectors, it is riskier but with a higher potential for returns. When maintained over a period of time, biased sector allocation signifies the fund manager's faith in certain sectors, depending on their business cycle stages. While cyclical sectors (banks, automobiles, capital goods, cement etc.) are seen as risky, they offer great returns in the early and mid stages of a bull market. At the peak of a bull or bear market, defensive sectors (pharmaceuticals, FMCG etc.) tend to outperform.

COMPANY CONCENTRATION

The factsheet also gives the stock holding details of the scheme. Instead of focusing on individual names, investors should focus on company concentration, which tells you what percentage of your investment is at risk. You can calculate company concentration by adding the weights of the top five or ten companies. If the weight of the ten largest stockholdings is within 50% and the weight of the five largest stockholdings is within 30% of the portfolio value, the company concentration risk is acceptable.

NAV AND RETURN

The factsheet also shows the NAVs and returns of different scheme options. Because the returns given in most factsheets are trailing over different time-scales, investors might find it difficult to visualise their percentage annualised returns. They can then think of the growth of Rs. 10,000 to understand the wealth the scheme created over different time periods.

ACTIVE STOCK ALLOCATION VERSUS BENCHMARK

Active Stock Allocation versus Benchmark tells the investors which active stocks are overweight or underweight versus the benchmark. However, investors must understand that overweight and underweight are relative concepts. Being underweight on a stock does not necessarily mean the fund manager is bearish on it. In the case of redemptions, instead of selling shares of all stocks in the portfolio, the manager may selectively sell a few stocks he is underweight on to achieve the best results for unit holders who remain invested. Similarly, when there are fresh flows in the scheme, the fund manager would buy shares of those stocks he is overweight on to create higher alphas for investors.

MARKET CAPITALISATION

The weighted average market cap of the scheme portfolio is the average of market cap of all the stocks weighted by their proportions in the portfolio. When all stocks in the portfolio are listed in an ascending order of market cap, the market cap of the stock in the middle is the median market cap.

ASSETS UNDER MANAGEMENT (AUM)

The average AUM is the average of the assets under management of the scheme at the beginning of the month and end of the month.

TURNOVER RATIO

This is a measure of how much of the portfolio changed in the past year. A ratio of 100% means that the fund manager replaced all holdings once in the last year. Most experts believe that a low turnover ratio is good since it reveals a "buy and hold" approach. However, some investment experts believe that managers who churn their portfolios more look to actively exploit market opportunities based on valuation differentials.

SIP RETURNS

This powerful tool explains the wealth creation potential of the scheme using systematic investment plan (SIP). It shows how much wealth could have been created through a monthly SIP in the scheme over various time periods ■

Equity Investing
Quality Matters

It has been a decade since the sub-prime financial crisis gridlocked financial markets and put economies across the globe in a limbo. In the years following the crisis, markets have seen a significant change in investing styles and the way assets are managed. Domestically, the S&P BSE Sensex recovered all its losses suffered during the crisis over a period of three years. However, it remained stagnant for the next four years.

During this time, the S&P BSE Quality Index, an index tracking companies that score well on common financial parameters like return on equity and free cash flows, has significantly beaten broad market indices. The recent volatility seen in the markets has brought quality investing back into the limelight. At Axis AMC, quality forms a focal point of our investment strategy due to the inherent benefits it offers over sustained investment periods.

WHAT IS QUALITY?

While there is no single definition, in our opinion, quality typically connotes a combination of a set of two factors:

Qualitative Factors

- Strong Return Metrics (E.g. Return on Equity(ROE), Return on Capital Employed (ROCE))
- Stable Cash Flow – A company should be able to fund its organic growth from internal accruals and use long-term capital and working capital efficiently
- High profitability, low debt-to-equity and earnings consistency

Quantitative Factors

- Strong management pedigree
- Transparency of operations for investors and key stakeholders
- Credible oversight committees and strong internal controls
- Sustainable long-term business model

In essence, this style offers two potential advantages. First, quality has historically delivered a return premium, i.e. the opportunity to outperform a broad benchmark over the long-term. Second, it offers a high margin of safety. Quality typically outperforms other investment styles during periods of turbulence as these stocks are considered less volatile by market participants due to their fundamental attributes.

QUALITY – AN AXIS EXPERIENCE

At Axis, we primarily follow a bottom-up stock selection approach with a minimum 2-3-year view on stocks. Bias towards high quality and growth with strong fundamentals are the key look outs for our fund managers to select companies for their portfolios. Four principles drive our investment philosophy at Axis:

- Strong corporate governance/ Strong promoter pedigree
- Secular growth rate of the sector, which is anywhere around 1.5 to 2x of GDP
- Strong business model that demonstrates pricing power in the product category
- Good ROEs and cash flows

Since our inception in 2009, we have followed this approach and about 80%-90% of our portfolio is based on the philosophy.

Quality typically outperforms other investment styles during periods of turbulence as these stocks are considered less volatile by market participants due to their fundamental attributes

RECENT EVENTS – STEADFAST ADHERENCE TO QUALITY PAYS OFF

Our approach surrounding quality has enabled us to navigate through pockets of pain in the market. Few examples are as below.

The Commodity Complex

Commodities are a cyclical business that work on the demand appetite of the global market. Economic growth is an indicator for commodity demand. In 2013-16, the price of key commodities dropped by up to 60% causing havoc in the commodities market.

The fall in commodities worked positively for India which is a net importer of commodities. However, select industries like crude oil, steel and wheat bore the brunt of this fall, thus witnessing a deterioration of their respective corporate balance sheets and a destruction of significant market wealth.

NPA Cycle

Public sector banks have seen significant decay in asset quality since 2015. As the NPA cycle grew worse, the provisioning norms ate into corporate profits and asset values saw significant erosion leading to a fall in the banks share prices. Large private banks also saw significant NPAs in their corporate loan books.

However, retail-focused private banks remained largely unscathed during this and hence commanded a significant premium to their corporate banking peers. Another pocket of quality lay in the housing finance and non-banking financial space due to the largely retail focus and strict ALM policies in place.

THE WAY FORWARD

As highlighted above, quality has been an all-weather wealth creator for long-term investors despite several blips in performance. While uncommon, these blips have not eroded the wealth created during the market upswing. Further, it is important to note that companies labelled as quality are fundamentally driven rather than by sentiment. Hence, the volatility quotient of these stocks remains relatively low as compared to momentum and value driven stocks where asset pricing is dependent on subjective factors.

Axis MF has been a strong believer in a result-oriented approach to investing and has stuck to this line of investing since inception. We had released a note titled Q3 Review - Fund Fundamental Performance clearly highlighting this focus on quality ■

Contributed by
Axis Mutual Fund

BUSINESS INSURANCE

An Opportunity for SMEs

In recent times, India's business ecosystem has seen a boom, its growth fuelled by foreign investment and technological advancement. Today, Indian SMEs and startups are globally competitive and lead the way in implementing best practices in most areas. However, an area that still remains overlooked is business insurance. Business owners and startup founders are still largely unaware of the types of business insurance policies and packages available for SMEs and startups in India.

What's worrying is that a business owner in India typically has no time to spend on managing risks, essentially walking on a high-wire without a net. You could have a flourishing business today, and it could be gone tomorrow due to fire, theft, flooding, riots, accidents, equipment failure, breach of partnership, employee attrition etc. For most businesses, insurance is essential to their survival and a steady stream of customers.

One can protect their business' financial security by investing in the following types of insurance policies.

KEY PERSON INSURANCE

A key person is someone whose talent and experience has a huge impact on the performance of your organisation. Such people, being key assets, cannot be easily replaced. Thus, a key person insurance is important because it:

- Indemnifies your business against the loss due to death of the key person
- Assures your customers and suppliers about the financial strength of your business
- Provides a fund to recruit and train suitable talent
- Compensates the family of the deceased key person

PARTNERSHIP INSURANCE

Partnership insurance can help you maintain business continuity, especially in the case of the death of your partner and their family not willing to continue the partnership. Some of its key benefits are:

- It is a prudent solution for continuing the business in the event of unforeseen circumstances
- It enables the partnership firm / other partners to buy out the deceased partner's share

MWPA

An insurance policy taken by the husband under the MWPA creates an estate for the exclusive benefit of the wife and children, be it a married, widowed or a divorced man. Its benefits are:

- It creates an encumbrance-free estate for your family
- It insures savings for the exclusive use of your family
- It minimises the impact of litigation, in case of any debt related issues, on your family
- It provides you complete peace of mind given that your family is financially secured even when you may not be around
- Even if you have procured a loan to run your business, there is a possibility that in case of problems regarding repayment of loans or payment of taxes, a dispute with banks/tax authorities may arise. Using MWPA provisions, you can ensure that the money saved for the exclusive use of your family remains secure

EMPLOYER – EMPLOYEE INSURANCE

It's no secret that employees are the most important asset of a company. Hence, it becomes imperative for an organisation to make its concern for their well-being known. Simple gestures like providing them with a life cover for their family's secure future goes a long way in contributing to higher employee satisfaction and earning their loyalty towards the organisation. An employer-employee insurance comes with the following benefits:

- Serves as an excellent employee retention tool
- This policy provides insurance for the employee as an incentive/ benefit or reward for his loyalty and retention

Just one wise step can secure your business' financial future. Ultimately, be it for a small or a large corporation, an insurance is necessary in order to protect employees and encourage investment in the business. Finding the right insurance types for your business may seem tricky, so don't hesitate to contact an advisor for help ■

Contributed by
Aviva Life Insurance

The Impact of Rising Interest Rates: An Economic Analysis

> Governments and central banks had a vested interest in keeping interest rates low, not wanting to be seen as playing spoilsport to the heightened economic activity. Governments were especially happy since they could fund their huge deficits at low costs

In the last few months, financial markets have been worried about interest rates rising across the globe. Initially, it came as a shock as market participants had become used to zero/ low interest rates, with complacency about turnaround in the interest rate cycle at a high. In fact, an entire generation of financial market participants who, throughout their careers had only seen interest rates fall, had actually started to think that interest rates could never rise and that low/zero interest rates were the normal.

This scenario was brought about by the Federal Reserve to keep recession at bay post the technology bubble burst in 2001. It was Alan Greenspan, the then Fed Chairman who had pioneered the low interest rate regime. Coupled with increasing liquidity in the financial system by printing new currency, this gave a boost to the economy and the financial markets. Each time the Fed announced a lowering of interest rate, markets would rocket. Over time, the boost to the economy was limited and the additional liquidity at low interest rates found its way into financial markets (equities, debt, commodities etc.), stoking asset price inflation, including real estate.

As investors, traders, and speculators could borrow at low costs, almost each asset class multiplied in value. Leverages were created at multiple levels to borrow at low interest rates and invest/trade in the financial markets. Since interest rates and bond prices are inversely correlated, bonds, including junk bonds, saw huge rallies. Even where financial assets were absent, exotic tradable securities were created. This created a huge bubble across asset classes, which eventually lead to the global financial crisis in 2008-09. Stripped off all the jargon, the root cause of the 2008-09 global financial crisis can be traced to low interest rates.

Post the financial crisis, central banks became even more aggressive in pumping liquidity into the financial system, leading to an even bigger bubble during 2009-17. Low interest rates soon became the drug that kept financial markets buoyant. Governments and central banks had a vested interest in keeping interest rates low, not wanting to be seen as playing spoilsport to the heightened economic activity. Governments were especially happy since they could fund their huge deficits at low costs.

Soon, Europe and Japan joined in full force with the USA. The low interest rate regime distorted the markets, challenging our traditional understanding of economics that capital always comes with a cost. Large parts of developed markets, with trillions of dollars of bonds, were trading at negative yields - an absurd scenario where the lender was paying the borrower! The absurdities of markets were such that AAA and C rated bonds were trading at similar yields. Bonds from Greece government, which has defaulted on loans several times in the last 20 years, were trading at yields similar to USA treasuries (sovereign bonds).

WHY ARE INTEREST RATES AN IMPORTANT INDICATOR FOR ECONOMICS AND FINANCIAL MARKETS?

Interest rates are directly correlated to risk and cost of capital. The providers of capital have to be compensated in the form of interest; higher the risk, higher should be the interest rate. When interest rates or bond yields fall, it signals a lowering of risk which was not actually the case. By keeping interest rates low for an extended period (more than 10 years), central banks were in effect manipulating the markets since risk was not entirely factored in. This artificially created market scenario had to come crashing down some day. The day of reckoning happened to be towards the end of 2017, when the Fed signaled an end of low interest rate regime.

Panic was a natural outcome since the market prices of securities were pegged to lower interest rates and rising interest rates would mean falling values of the securities - be it bonds or equities or any exotic variety. Falling market prices trigger a sort of a contagion since multiple levels of leverage have to be undone. If falling interest rates signal lower risk, rising interest rates signal higher risk. Subsequently, prices have to correct, which is exactly what started towards the end of 2017. There on, this process not only continued but is likely to continue for a while.

Impact on India

The low interest rate scenario benefitted India as well, since it had received billions of dollars of foreign equity and debt investments coming by way of venture capital and private equity. The increased liquidity in global markets had enabled interest rates in India to also remain low. But the cycle is turning in India as well which will have far reaching consequences across the economy and the markets. We briefly discuss them below.

Impact on Borrowers

Borrowers are of three types - government, corporate, and individuals. Governments are generally always borrowers for the deficits they run. With higher interest costs, their cost of funding deficits increases, subsequently increasing deficits. In India, even before the RBI had signaled higher rates, the bond yields in the financial markets had begun to inch up and had increased by almost 100 bps until cooling off slightly in the first week of April. Until the interest rate offered on new securities by the government, there were no takers and twice in the last six months, the issues devolved.

Corporates also borrow for their growth needs. Rising interest rates affect cash flow calculations and payback period for new projects. This directly affects the Return on Capital Employed (RoCE) and Return on Equity (RoE). Since higher interest rates increase project cost (pre-operative interest costs are generally capitalised) and subsequently lower the profits, the RoCE and RoE are much lower. Profits decrease while capital employed increases. Thus, projects which would have been attractive at a certain rate of interest become less attractive at higher interest rates, unless costs can be passed on in the form of higher prices.

Impact on Lenders

Typically, banks, financial institutions, and NBFCs are lenders. They borrow from one source (deposits, bonds, borrowings) and lend to the other in the form of loans. The margin between the cost of funds and rate of lending, typically called Net Interest Margin (NIM), is their spread. Thus, the impact on them is mixed depending on how their cost of funds and rate of lending change in the short, medium, and long-term.

Here, there could be several scenarios of the impact depending upon the flexibility of their cost of funds and rate of lending, including the time period of their borrowings and rate of lending. If a bank/NBFC has raised adequate funds during the low interest rate period and uses the same funds to lend when the lending rates increase, they would see their NIM expand. This could be a strong possibility with several NBFCs in the next 1-2 years. Those banks that have raised significant fixed deposits in the past will also see a slight NIM expansion for that part of the portfolio since the fixed cost funds can now be lent at a higher rate.

If the bank/NBFC has extended loans on fixed interest rates in the past, with their cost of funds increasing (assuming their cost of borrowing is not fixed), they could see contraction in their NIM. Depending upon the funding mix and the loan portfolio of the individual institution, the interplay between time period, and interest rates on both sides will vary. Some will see their NIMs expand, while some may witness a contraction. Most may just maintain their spreads between their cost of borrowing and rate of lending.

Increased negative impact on banks

Banks have to keep a certain portion of their total deposits invested in government securities for their Statutory Liquidity Ratio (SLR) and Cash Reserve Ratio (CRR) requirements. Since bond prices and interest rates are inversely related, a rising interest rate scenario means banks need to provide for the mark to market losses on their investment portfolio of bonds. This impact could be very significant if interest rates rise sharply in a short period of time. The RBI made certain concessions about provisioning for the market to market losses in the last few days, allowing banks to spread the provisions for their trading portfolio over four quarters besides providing flexibility for provisioning requirements on bonds banks intend to hold till maturity.

> If falling interest rates signal lower risk, rising interest rates signal higher risk. Subsequently, prices have to correct, which is exactly what started towards the end of 2017

HOW DOES IT AFFECT INDIVIDUALS LIKE US?

Individuals can be borrowers (by way of home loans, car loans, personal loans etc.) and lenders by way of deposits they keep with banks. Ideally, the deposit rates (both savings and fixed deposits) should also go up but history shows that banks have been very slow to increase the rates they offer on deposits. Thus, individuals do not get the full benefit of rising interest rates through the cycle. However, on the lending side, banks and NBFCs are quick to raise the rates for loans, both new and existing, where the loans are at flexible rates of interest. Thus, here too the individual is at a disadvantage ■

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

Expert Speak

Market Outlook

Mr. Market is an eccentric man. Sometimes he overreacts but at other times exhibits normal behaviour. At times he is extremely depressed and at others, bursting with excitement. It is our job to not to react to his reactions.

Since the peak in Jan-18, markets have corrected by around 8%. The decline in small and midcap stocks is well into double digits. It is evident that the market is unable to make up its mind in the short-term. And this is because sentiments are changing fast.

The dynamics of global trade and finance seem to be undergoing a change. US, which up until now had been the proponent of free trade, capital flows, and business connectivity, is going protectionist. China, which is essentially communist, is asking for free trade. This trend, if it takes root, will have major consequences for global growth and capital. The resultant volatility in the market is because the participants are unsure as to where and how this will impact business.

In our opinion, the present US establishment is using the maximalist position to strike a bargain later. Although China, too, has been using its undervalued currency to gain trade advantage. If the US is able to negotiate a gradual recalibration of Yuan, a freer access to Chinese markets, and a more transparent regime, this may result in welfare for everyone in the long run, especially India. But for the next few months, global markets and stocks of dependent companies may move like a pendulum.

At the domestic front, early green shoots seem to be showing signs of growth. Car sales in year-on-year terms are rising. Airline traffic, too, has shown healthy increase. CPI inflation seems to be undershooting RBI projection levels. But risk factors exist. Rising crude prices, a tight fiscal deficit target, and political uncertainty are some of the key ones.

Crude prices at US$ 70 p/b can lead to a weak currency, wide current account deficit, and rising inflation. A slipping fiscal deficit can cram out private sector borrowing and raise general interest rates in the economy. But political turmoil in an already noisy India can cause much more volatility.

Markets don't love uncertainty. They love stability, growth, and predictability. And if a divided electoral mandate hampers that, it raises concerns. With major state elections slated this year and the big general election in 2019, the whole of India Inc. is cautiously looking at turning events.

Indian markets, however, have a floor as to how much they can move downwards. If valuation levels decline sharply, mutual fund SIP inflow will provide buying support. Of course, 'end of the world' kind of sentiments can hurt all bottoms. But that is not what we plan for.

The RBI kept policy rates on hold while maintaining their neutral monetary policy stance - largely in line with expectations. The overall tone of the policy was neutral as compared to some of the earlier ones. Also, with a reduction in the projected inflation range for FY19, there seems to be a tilt towards a dovish undertone. While the RBI does maintain that there are upside risks to inflation, the lowering of the CPI inflation projections for FY19 lends comfort.

The mutual fund industry average AUM stood at Rs. 23.05 lakh crore at the end of Mar-18. This is a growth of 25.9% on YOY basis. In the same period, the Kotak Mutual Fund average AUM for Mar-18 was at Rs. 1.24 lakh crore, a growth of 35.2% on YOY basis.

The financialisation trend continues. While the fixed income segment is attracting the bulk of AUM, retail inflows are directed mostly into equities. At a time when markets are gyrating, this nascent retail trust has to be nurtured. It is advisable that risk mitigation investment strategies like SIP, asset strategic allocation, and realistic goal based investing are recommended to investors. Investors also need to be educated that the market is neither a roller coaster, nor a lift. Rather, it is a walk up the mountain. It is difficult and requires discipline, patience, and planning. But when you reach the top, the view is splendid ■

Nilesh Shah,
Managing Director,
Kotak Mutual Fund

FAQs

ELSS

Equity Linked Saving Scheme

Comparison of different tax-saving options

COMPARISON OF EQUITY LINKED SAVINGS SCHEME & OTHER TAX SAVING INVESTMENT OPTIONS

Parameter	PPF	NSC	FD	ELSS
Lock in period	15 years	6 years	5 Years	3 years
Returns	7.60% (Compounded Annually)	7.60% (Compounded Annually)	7.00 - 8.00 % (Compounded Annually)	12-15% (market linked)
Min. Investment	Rs. 500	Rs. 100	Rs. 1,000	Rs. 500
Max. Investment	Rs. 1.5 Lakhs	No Upper Limit	No Upper Limit	No Upper Limit
Amount Eligible for Deduction under 80c	Rs. 1.5 Lakhs	Rs. 1.5 Lakhs	Rs. 1.5 Lakhs	Rs. 1.5 Lakhs
Taxation for Interest/ return	Tax Free	Interest Taxable	Interest Taxable	Gains up to INR 1 lakh are free of tax. Tax at 10% applies to gains above INR 1 lakh
Safety/ Ratings	Safe	Safe	Safe	Risk

COMPARATIVE ANALYSIS OF ELSS AND ULIP

Parameter	ULIP	ELSS
	(Unit Linked Insurance Plan)	(Equity Linked Savings Scheme)
Is there any lock-in period?	ULIPs have a mandatory lock-in of 5 years	ELSS have a mandatory lock-in of 3 years
What returns can I expect?	The returns can vary because an investor can choose any combination of equity, debt, hybrid funds in his investment.	Being market-linked, the returns can vary depending on the scheme selected but an investor can expect an approximate return of 12-14%.
What are the tax benefits?	The invested amount offers tax deduction under Section 80C upto 150000, and gains are exempt.	Gains up to INR 1 lakh are free of tax. Tax at 10% applies to gains above INR 1 lakh
What are the charges applicable?	There are complex and multiple charges like policy administration charges, premium allocation charges, mortality charges, etc.	No Charges applicable
What about liquidity?	Funds can be available after the lock-in of 5 years subject to further policy conditions.	Funds will be available after the lock-in of 3 years.

HISTORICAL PERFORMANCE OF SOME ELSS SCHEMES

Sname	Corpus (Crore)	Nav	3 Month	6 Month	1 Year	2 Year	3 Year	5 Year	10 Year	Since INCP RET	Launch Date
IDFC - Tax Advantage Reg (G)	1084	55.4042	-6.51	4.00	24.08	24.02	11.38	21.70	-	20.18	Dec 26 2008
Aditya Birla SL - Tax Relief 96 Fund ELSS Reg (G)	5032	29.95	-7.02	4.25	19.85	20.37	11.45	22.47	12.63	11.53	Mar 29 1996
Motilal Oswal - Long-Term Equity Fund Reg (G)	852	17.3905	-3.96	2.11	19.22	28.46	17.53	-	-	19.07	Jan 21 2015
L&T - Tax Advantage Fund (G)	2989	53.469	-6.21	1.37	17.68	22.24	12.75	19.56	14.44	14.90	Feb 27 2006
Principal - Tax Saving Fund (G)	385	201.67	-9.39	1.00	17.07	23.93	13.25	21.18	10.11	16.61	Mar 31 1996
Mirae - Asset Tax Saver Fund Reg (G)	864	15.407	-9.01	0.03	16.57	26.38	-	-	-	21.33	Dec 28 2015

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

#DoYourHomework

Your kids may be cooking up a different dream than what you had in mind. With innumerable career options, kids today can choose to become whatever they want to, while you do your homework and be financially prepared for their future.

To know more,
connect with your Financial Advisor
or visit www.DoYourHomework.in

Mutual Fund investments are subject to market risks, read all scheme related documents carefully. **An investor education initiative by Axis Mutual Fund. Statutory Details:** Axis Mutual Fund has been established as a Trust under the Indian Trusts Act, 1882, sponsored by Axis Bank Ltd. (liability restricted to ₹1 lakh). **Trustee:** Axis Mutual Fund Trustee Ltd. **Investment Manager:** Axis Asset Management Co. Ltd. (the AMC). **Risk Factors:** Axis Bank Ltd. is not liable or responsible for any loss or shortfall resulting from the operation of the scheme.

www.digitalbilling.co.in

Simplify your billing

Easy billing

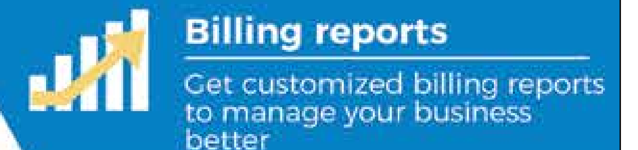
No need to be an expert in GST

Intelligent software

Auto - calculates GST

Data management

Manage customer/vendor details at one place

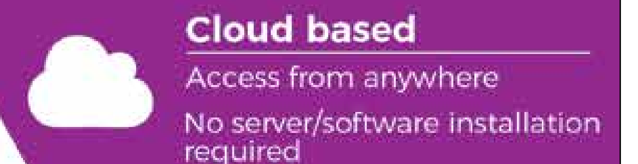


Billing reports

Get customized billing reports to manage your business better

GST return compilation

Prepare returns from bills automatically



Cloud based

Access from anywhere

No server/software installation required

For Demo

+91 99103 36690

info@digitalbilling.co.in

Meri Punji

Invest in Investing

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.

Info@meripunji.com
203, Siddharth Chambers, Hauz Khas, Kalu Sarai, (Adj. Azad Apts.), New Delhi - 110016

www.meripunji.com