

Anurag Thakur Interview

COVID-19 Hits Insurance

Outlook

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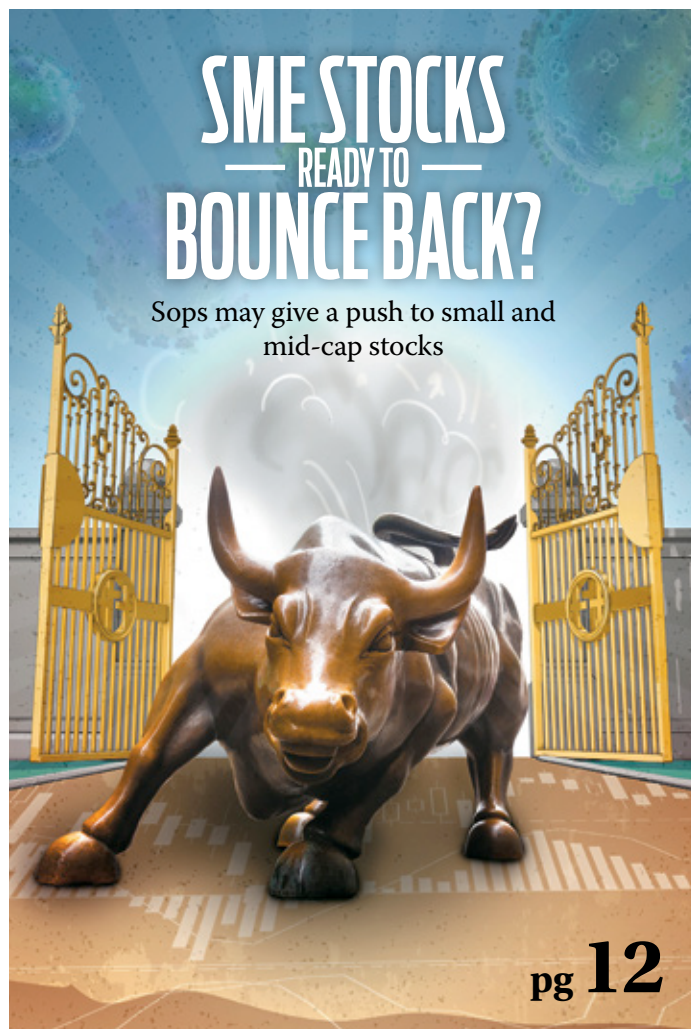


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Contents

JULY 2020 ■ VOLUME 19 ■ ISSUE 7



Interviews:

- 26** Anurag Thakur on the stimulus package
30 How India-China conflict can hit stock market

34 Is insurance sufficient in COVID times?

Health insurance is proving to be insufficient to deal with the challenges and high cost of COVID-19 treatment

38 Environment funds set to rise

Investors are willing to invest in stocks with environment and social values

42 Boost For Digital Payments

Fintech will reap benefits this year as people turn to financial platforms

44 A Relief To MF Industry

RBI's special liquidity window may help mutual funds

48 Attractive property options for NRIs

It is an opportune time for real estate sector as home prices drop

54 Reframe Your Goals

Plan asset allocation as per your risk profiles by aligning goals with objectives

56 Golden option for millennials

Gold will remain in the reckoning and provide positive returns during the pandemic

Regulars

4 Talk Back **8** News Roll **10** Queries **52** Stock Pick **60** Morningstar **64** My Plan **66** Dear Editor

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HEAD OFFICE AB-10, S.J. Enclave, New Delhi 110 029; Tel: (011) 71280400, Fax: (011) 26191420 OTHER OFFICES Bangalore: (080) 43715021

Kolkata: (033) 46004506, Fax: (033) 46004506; Chennai: (044) 42615225, 42615224; Fax: (044) 42615095; Mumbai: (022) 50990990,

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The objective is to keep readers better informed and help them decide for themselves.

New World Order Post COVID-19

Our lives are significantly changing in the era of COVID-19, as we tailor our lifestyle to fit into the 'new normal'. This article about the new normal is well presented in a detailed and lucid manner, talking about how financial transactions are soon going to be digitally dominated as customers are gradually becoming less dependent on human intervention, about increased awareness on health insurance and several other conspicuous changes. The crisis and lockdown have deeply changed our mindsets, and as mentioned in the article, this pandemic is likely to leave a permanent imprint on the customers, countries and economies.



Sonia Sharma, Mumbai

Bleak Expectations Of A Revival



I found the story highly informative, describing the positive and negative sides of the Atmanirbhar Bharat package. Often it gets difficult for us to comprehend the entire concept and its ramifications. Such articles help us to get a clear picture

of it. I had a great time reading this article.

Mohina Singh, New Delhi

Invest For Guaranteed Happiness

The column on the necessity of investing serves an important role for people who find themselves confused while making an investment decision. It is a beautifully explained column and teaches us how to make our money work, once we enter the retirement stage.



Soumyajit Pal, Kolkata

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Saibal Dasgupta

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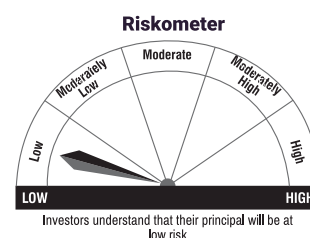
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Gather The Rosebuds Right Now

I have been following Outlook Money for years, and I would like to say that this topic is really commendable, and it helped me settle my thoughts regarding buying a new house. The financial uncertainty has taken a front sit due to the pandemic, hence many are hesitating to buy a new house. However, this story has given a proper background picture coupled with valid reasons.

Arshi Kashyap, Mumbai

Living Through The Market Cycles

The standpoint was very intriguing. I have poor knowledge in this field, but I would like to appreciate the way it has been woven, starting with a historical timeline to give us an idea about the boom-bust-boom cycles.

Sunipa Dey, Kolkata

Surviving A Salary Cut Or Job Loss

Some are sailing in the ship of hardships while some are witnessing their boats drown. The

current scenario is the emblem of dark times, but we must learn to weather the storm with minimal impact. I feel this article is the need of the hour, as it explains that it is very important for us to weigh our financial goals, revisit our priorities and create emergency funds. It is quite apparent that the crisis will be with us for some time, and we need to act accordingly.

Yashwi Pandey, Kolkata

Sugar, Spice All Things Not So Nice

I knew about the increasing cases of diabetes, but I was taken aback when I came to know that it will

reach a certain point in future, where it might be termed as another pandemic. Since diabetes runs in our family, it is a grave concern for us. I would like to thank Outlook Money for coming up with this topic. I got to explore the pros and cons of a diabetes specific health insurance plan and whether it is the best possible solution or not.

Nivedita Banerjee, Mumbai

Reap A Golden Harvest

I had a great time learning about the status of gold in the market. At this point of time, it is surely the safe haven for people, as it lends itself well to liquidation during uncertain times and helps investors raise cash and counterbalance losses stemming from other asset classes. It has become the best performing asset as it continues to retain its worth even in turbulent times like these.

Suraj Rastogi, Delhi

My Plan

I could very well relate to this story. It is important to stay invested amidst all negativity. It was a great learning from Dr DG Vijay's story and it can be a lesson for several others out there. We are often unsure of our financial decisions when there is an underperformance of the investment. Such stories are really helpful.

Rishi Jain, Bangalore



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Indians Welcome Change In Customer Experience



The consumers are changing their approach and increasing their interest and awareness regarding the value of the information they provide to the businesses. 69 per cent of Indian consumers believe that the gradual change in the trajectory of customer experience is seen due to the result of their data being used, says one of the leading credit bureaus Experian in its 2020 Global Identity & Fraud Report. As per the report, Indian businesses have ranked the highest at 100 per cent in confidently identifying the customers, whereas 35 per cent customers felt unrecognised by the businesses. Further 54 per cent of business organisations in India are using advanced analytics for identity authentication and fraud prevention. With sophisticated authentication strategies and advanced fraud detection tools, today they are accurately identifying and re-recognising their customers, reducing their exposure to risk and eventually building a greater level of trust in organisations.

“Companies need to deliver more than personalised products; they need to deliver on customer expectations for security and convenience at every step of the digital journey,” said Sathya Kalyanasundaram, Country Head & Managing Director, Experian India.

The credit bureau Experian had interviewed 6,500 consumers to study and analyse the research, with more than 650 businesses from across 13 countries including India, Mainland China, Japan, Indonesia, Australia, the United States, and the United Kingdom amongst others. “Globally, while 95 per cent of businesses are optimistic in their ability to identify customers digitally, many consumers across the globe are yet to be acknowledged and recognised while engaging with businesses online. Over half of the organisations surveyed are prioritising the creation of targeted products and offers, while collecting more personal information to do so,” said a report. ■

Himali Patel

Fitch Downgrades 9 Indian Banks To Negative

Credit rating agency Fitch has revised the outlook on the long-term Issuer Default Ratings (IDR) of nine Indian banks from stable to negative in consonance with rating changes to India's sovereign outlook. As quoted by Fitch, the reason for this downgrade is the impact of the escalating coronavirus pandemic on India's economy. However, earlier this month, another credit rating agency downgraded the long-term local and foreign currency deposit ratings of HDFC Bank and SBI to Baa3 from Baa2 and also the long term issuer rating of EXIM India to Baa3 from Baa2, with a negative outlook and had placed Bank of Baroda, Bank of India, Canara Bank and Union Bank of India under the review for downgrade.

On June 22, Fitch rating downgraded outlook of nine banks that include Export-Import Bank of India, State Bank of India, Bank of Baroda, Bank of Baroda (New Zealand), Bank of India, Canara Bank, Punjab National Bank, ICICI Bank, and Axis Bank.

Fitch said, “The negative outlook on India's sovereign rating reflects an increasing strain on the state's ability to provide extraordinary support, due to the sovereign's limited fiscal space and the significant deterioration in fiscal metrics due to challenges from the pandemic.”

“The rating agency expects State Bank of India (SBI) to receive extraordinary government support, if required, due to its very high systemic importance. SBI is the largest Indian bank with nearly 25 per cent market share in the system assets and deposits. It is 57.9 per cent state-owned and has a much broader policy role than peers,” Fitch added. For ICICI Bank and Axis Bank, the global rating agency expects a moderate probability of extraordinary state support, due to their systemic importance, market position, and private ownership. ■



Rajat Mishra

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Keep The Spotlight On Your Investment Goals

SUSNATA

susnata_har@hotmail.com

I have been investing for the last nine years and all my funds are in direct plan and growth option. My investment horizon is 20 to 25 years, targeting ₹2 to 2.5 crore. My present MF portfolio includes, Quantum Long-Term Equity Value Fund: ₹2,000, HDFC Mid-Cap Opportunities: ₹5,000, Franklin India Smaller Companies Fund: ₹3,000, Axis Focused 25: ₹3,000, Franklin India Feeder Franklin US Opportunities Fund: ₹3,000, Canara Robeco Equity Tax Saver: ₹8,000.

Since the market is down, shall I increase my SIP amount in a smallcap or multi-cap fund? Secondly, CanRob Equity Tax Saver, has been receiving a 3-star rating, shall I change to Axis Long Term Equity?

I would suggest you hold all your funds. There is no need to make any changes given your long-term horizon. Simultaneously, add more SIPs, especially focusing on large-cap and Index. Also, add HDFC Index Fund - NIFTY Plan - Direct-Growth, and add other large cap funds like Mirae Asset Large Cap Fund. You can also add smaller amounts in funds like Canara Robeco Emerging Equity and Mirae Asset Emerging Bluechip. Axis Long Term Equity is a relatively better fund than Canara Tax saver, hence, you can go ahead and make the switch.

Sousthav Chakrabarty,
CEO, and Director, Capital Quotient

SANDEEP MITTAL, skmittal009@hotmail.com



I am 49 and fall under the 30 per cent tax bracket. How much will I benefit by investing ₹50,000 per year in NPS, by the time I am 60?

As the global markets have dropped significantly and since you are in a 30 per cent tax bracket, we advise you to invest in equity related NPS and mutual fund schemes. Out of the proposed ₹50,000 investment per year, ₹30,000 should be invested in equity oriented NPS schemes and ₹20,000 can be invested in equity multi cap mutual fund schemes for the next 11 years. This total amount should be bifurcated in SIPs of ₹4,000 per month so that you can average out the cost of your investment with a staggered approach.

Aakanksha Chopra, Wealth Manager, Ashika Wealth Advisors

SRIKANTH REDDY

srikanthr2908@gmail.com

I am an NRI, planning to invest in my kid's education who is four months old. I would like you to advise me on the following - firstly, how much do I need to invest to accumulate an amount of ₹35 lakh by the time my son turns 15? Secondly, do I need to pay a tax on ₹35 lakh? If yes, how much would it be?

I think ₹35 lakh after 15 years will not allow you to afford education expenses. If the present cost is anticipated at ₹35 lakh then in 15 years, the amount required will be around ₹85 lakh. In order to save for this, you will need to invest

₹17,000 per month. If however, you are planning only for ₹35 lakh then you will need to invest ₹7,000 per month. Depending on the investment route, you may or may not have to pay tax then, though, this cannot be predicted now, as it will depend on the tax laws applicable at that time. Hence, it is prudent to plan a 20 per cent higher amount. You can also use equity mutual funds as an option to save this money. Select index or large cap funds mainly (such as HDFC Index Fund and Mirae Large Cap Fund), since you will want lower risk on this corpus. Also, keep reducing equity exposure once you are near your goal.

Sousthav Chakrabarty,
CEO, and Director, Capital Quotient

Are Debt Funds Safe In Today's Market Conditions?

In the second episode of the Outlook Money's special series that aims to help investors make most of their money in today's market conditions, brought to viewers by Mirae Asset Mutual Fund, Mahendra Kumar Jajoo, CIO-Fixed Income at Mirae Asset investment managers, talked about debt funds and how they continue to be very good options for investors. Jajoo, a veteran in the financial services space with over 25 years of experience is overall responsible for supervising all debt schemes of the Mirae Assets Debt Funds.

According to him, debt funds continue to be very good options notwithstanding one or two isolated incidents like the Franklin Templeton case.

"There are challenges in each market and one or two isolated incidents should not become a benchmark. Debt mutual funds have historically performed very well and if you look at their 25 year history,

they have given 8-8.5 per cent returns," Jajoo said.

He added that gilt funds, debt funds which only invest in bonds and fixed interest-bearing securities issued by the state and central governments, have given returns close to 10 per cent in the last five years.

"So it is the choice of the right fund, that is more important and it's grossly unfair to blame the entire debt funds category because of one incident. Debt funds continue to provide better returns than bank fixed deposits which are traditional the first choice of retail investors. With long term capital gain tax benefit, I think it is high time to look beyond one or two isolated incidents and understand the high quality debt funds which provide very good investments to debt investors," Jajoo explained.

However, he warned that one should not put all eggs in one basket and hence diversification

is one of the key strategies for a successful investment on a long-term basis. And like any asset allocation model, the investor needs to look at two key factors - investment horizon and risk appetite - before choosing a debt fund.

Debt funds come in various categories from liquid funds, which invest in very short term securities, to gilt funds that invest in high quality debt papers like government bonds and AAA rated PSU bonds. And then you have credit-risk funds which invest in low-rated companies in hope of higher returns. Jajoo said that when one gives money to lower rated companies, they are less likely to return the capital in time along with the interest compared to highly-rated companies.

"Therefore, one is much better protected by taking interest rate volatility risk than to take the credit risk," he concluded. ■

MIRAE ASSET
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Episode-2

ARE DEBT FUNDS SAFE IN TODAY'S MARKET CONDITIONS?

In conversation with **Arindam Mukherjee**, Editor, Outlook Money

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Mr. Mahendra Jajoo,
CIO - Fixed Income, Mirae Asset Investments
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Stimulus Package

SME STOCKS READY TO BOUNCE BACK?



Graphics: Vinay Dominic

For the investor, the best way to judge the impact of the government's ₹3 lakh crore stimulus package for Micro, Small and Medium Enterprises (MSMEs) is to look at the movement of the stock market and the effect on mutual funds.

These industries have a major role to play in not just generating huge employment but also as a major exporter and a supportive ancillary sector for big industry. The new push towards self-reliance and reduction of import dependence under the Atmanirbhar Bharat Abhiyan has given them an entirely new role.

If the strategy works, there is no reason why the stock market particularly the small and mid-cap shares, which represent the MSME sector, won't cross the past levels. But business models and management strategies are bound to see some remarkable transformation in the COVID-hit universe, and this would have a wide-ranging impact on both profitability and investor returns.

But there are many challenges that require greater attention than the government's liquidity led revival program. Industrial revival requires sharp up gradation in technology, wide-ranging infrastructure development and a strong drive for skill development among workers. These issues remain to be addressed. If handled well, they will do good for the investors and the economy as a whole.

By Yagnesh Kansara

For more than 18 years, since he became the Gujarat Chief Minister for the first time, a key element of Narendra Modi's 'Model of Growth' was to woo large Indian and foreign firms. He believed that if Ratan Tata, Mukesh Ambani, Bill Gates, and Jeff Bezos funnel billions of dollars into mega projects, the economic waves would help to lift the lives of millions of people. It worked in Gujarat. His experiments with 'Make in India' during his tenure as the Prime Minister were steps in the same direction.

COVID-19 changed the blueprint. There is a new strategic roadmap to pull the country out of the current malaise. Apart from its focus on 'Big Business,' it aims to encourage local manufacturing, especially among the MSMEs (micro, small and medium enterprises). This explains why a sizeable portion of the ₹2,000,000 crore stimulus package targets the smaller firms. Under the Atmanirbhar Bharat Abhiyan and self-reliance philosophy, the objective of the short-term spur is to inject liquidity in the system to benefit 4.5 million MSMEs. There's no denying the fact that this segment constitutes the backbone of Indian manufacturing.

There is a sober realisation that more needs to be done to help it become stronger, quality-conscious, and more competitive. But there is also a feeling among experts that if India continues her journey on this new path for a few years, it can transform the face of MSMEs as well as the economy. The combo-cocktail – encourage large and small firms – can inject adrenalin in the hitherto lackadaisical system. "We believe infrastructure development and manufacturing-led growth is the only sustainable model for India's development in medium to long term. Gradual import substitution, growing domestic market and market share gains in



AJAY THAKUR

Head, SME & Start Up Platform, BSE

Major problems faced by companies, irrespective of size, is the problem of liquidity

global exports could help boost GDP growth trajectory and make development model more balanced,” says Varun Lohchab, Head Institutional Research, HDFC Securities.

However, it's a long winded and arduous path, which would test the patience of entrepreneurs and investors. If executed well, multiple sectors could emerge winners over next five years, like speciality chemicals, pharma, Agri-processing, consumer durables, defence, autos and capital goods, he adds.

For us, as retail investors, the focus on the long term isn't enough. For us, who have seen the worth of our savings plummet, and then recover a bit, during the COVID period, it is crucial to know if the stock market and other asset categories will recuperate in the shorter run. We want to understand if Modi's new shift will boost market sentiments. More importantly, we wish to figure out whether MSMEs can become the new flavour of the season. Should you look more seriously at these stocks in the near future?

The existing policies will enhance the attractiveness of the 300-odd SME stocks listed on the BSE platform over the past 12 months. In the near future, more SMEs will seek to raise equity funds. Some of them, like in the recent case of Billwin Industries, may even offer their shares at premiums. Although shares of smaller firms are generally shunned by investors, this may be an opportune time to look afresh, and spot profitable opportunities. Of course, you will need to be careful. Here's a sense of how things will change over the next few months.

Indian financial system is awash with liquidity. Hence, it was just extreme risk aversion approach particularly of the Public Sector Banks (PSBs) that was freezing the credit market. This has compelled MSMEs to look at Non-Banking Finance Companies (NBFCs) for their funding requirement. This resulted in increased cost of funds as NBFCs were charging higher interest rates, making MSMEs uncompetitive among Asian peers.

Satish Kumar, Head of Equity, Equirus Securities says, “We believe the government has incentivised risk taking by guaranteeing ₹3 lakh crore of incremental credit and ₹20,000 crore as subordinate debt to MSMEs, and the first 20 per cent losses on ₹45,000 crore lending to



VARUN LOHCHAB

Head Institutional Research,
HDFC Securities

**Infrastructure development
and manufacturing-led growth
is the only sustainable model**

NBFCs, HFCs and MFIs. We should see incremental lending to MSMEs accelerate.”

The move to provide bigger relief to industrial sector in general and MSMEs in particular should not only tackle the issue of risk aversion by the banking sector but should also cross another hurdle in the form of rate transmission. This should happen sooner as we move gradually out of lockdown, experts feel. These developments will ultimately help the SME segment



of the exchanges. Once the speed of recovery improves, more and more SMEs would be ready to tap the market for further expansion and get listed. The listing provides MSMEs the benefit of equity financing opportunities to grow their business from expansion to acquisition. It lowers debt burden, leading to lower financing cost and healthier balance sheet. It also expands the investor base, which in turn helps in getting secondary equity financing, including private placement. This enhances a company's credibility and visibility. It further unlocks the value of the company and helps in wealth creation and in creating greater incentive for the employees who can participate in the ownership and benefit from being its shareholders.

Ajay Thakur, Head, SME & Start Up Platform, BSE explains, "The PM's Atmanirbhar package of ₹20 lakh crore, a significant part of which is dedicated to the MSME sector will certainly benefit the small and medium companies as it will take care of their working capital requirements. In the time of lockdown, the major problems faced by the companies, irrespective of their size, is the problem of liquidity. It is a must for their survival as in absence of it, they get trapped in a vicious cycle.

"They cannot pay salaries to their employees, clear suppliers' dues, loan servicing also becomes difficult and interest burden piles up resulting in cost escalation for the companies whether they operate in manufacturing or service sector."

In addition to increase in 20 per cent head room with respect to enhanced working capital limit through this package, the RBI's interest rate cut will also help the MSMEs to quickly bounce back, making them more competitive, he says. BSE SME & Start Up platform has already 322 SMEs and five startup listings in last one year of operation, of which three SMEs and one startup were listed during the lockdown period. 56 more SMEs and 10 startups' listings are in pipeline. While Billwin Industries' fixed price issue closed for subscription on Monday June 22, 2020, it offered 6.60 lakh shares at ₹37 per share with a premium of ₹27 per share. These 322 companies, listed on SME platform, have together raised fund to the tune of ₹3,300 crore and their combined market capitalisation (M-Cap) is worth ₹16,857 crore. Total five startups got

Solid Return[#]

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Ferrous

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Cotton

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Shipyard

*Current Market Price as on June 24, 2020; # These stocks recommended by LKP Securities are expected to provide moderate return on investment (above 50 per cent) in short to medium term (One to three years).

List Of Stocks To Gain

Sector	Coverage	Not covered#/ Unlisted
Chemicals	Alkyl Amines	Aarti Industries
	Galaxy Surfactant	Deepak Nitrite
	Navin Fluorine	
Pharma	Aurobindo	IPCA
	Dr Reddys	Alembic Pharma
Consumer Durables	Voltas	Dixon
	Havells	Amber
	Crompton	Bluestar
	Symphony	
Autos	Bajaj Auto	
	Maruti Suzuki	
Industrials	L&T	Kajaria
	Siemens	BEL
	ABB	BEML
FMCG	Dabur	
	Marico	
	GCPL	
	ITC	
Retail	Avenue Supermarts	Fab India
	ABFRL	Reliance Retail*

*Unlisted; #These stocks do not instead of 'does' Securities where it has initiated coverage.

listed on startup platform and have raised ₹22 crore and their M-Cap is ₹80 crore, boasts Thakur.

In addition to this relief package, another factor that will help the stock market to recoup its losses, seen in the early parts of the lockdown, is tremendous amount of liquidity floating globally. In the wake of G4, central banks of the US, Japan, Britain and China came together to salvage the situation by pumping in liquidity worth ~\$6 trillion. This unparalleled liquidity injection has led



SPARSH CHHABRA

Economist, Centrum Group

With the outbreak of COVID-19, global equity markets corrected significantly in March

to pullback rally across global markets. Sparsh Chhabra, Economist, Centrum Group in his strategy note says; "With the outbreak of COVID-19, global equity markets corrected significantly in March. Since the onset of April, investors again started flocking around risky asset classes (equity and like) and the risk on sentiment witnessed a further uptick in May. This has been highly fuelled by continuous mammoth liquidity injections, signs of COVID-19 cases peaking off in the European Union (EU) region along with the signs of stabilisation seen in the US. In addition to this, resumption of global economic activity also drove the rally."

However, the recovery in the India is expected to have lagged effect compared to global market. India rightly went in for early lockdown to counter COVID-19, thereby delaying the peak. However, it will also have a much slower recovery. Given last two years of lacklustre growth, the government has limited resources to support demand in the economy. "We believe the impact of COVID-19 will be profound in India and the recovery will be more 'U' or 'W' than of 'V'-shape, expected in some advanced economies," Chhabra argues.

Whatever be the shape of the recovery one thing is certain that the rural economy will recover faster rate than the urban economy as prospects remain intact. The forecast of a normal monsoon, its timely onset coupled with prospects of a bumper crop output along with MSP hike and recently announced rural focussed government programme - all augur well for the rural economy. These developments are likely to cheer farmers and policymakers as they hold potential to diminish the impact of COVID-19. These trends emerge as a silver lining amid an imminent growth contraction in FY21.

Based on this theme, LKP Securities has cherry picked stocks belonging to the MSME sector with an investment horizon of medium to long term (one to three years) that coincides with bounce back time period the Indian economy will take to instill normalcy.

Lohchab says, "Sectors within our coverage, which could see tailwinds, include chemicals (Navin Fluorine, Alkyl Amines), Pharma (Aurobindo), Autos (Bajaj Auto, Maruti), Durables (Voltas, Havells), Cap goods/defence (L&T), E-Commerce (RIL). Outside our coverage sectors, he sees a range of potential beneficiaries across agrochemicals and fertilisers, solar panels, agri processing, plastics, auto components and steel products. "We recommend investors to closely watch developments in these sectors to see signs of improvement for multi-year investible themes. Consumption and financials might take a back seat as they would revive with a lag," he concludes. ■

yagnesh@outlookindia.com

Outlook

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AMITABH KANT
CEO, NITI Aayog

ON

BOYCOTTING CHINESE GOODS
KICK-STARTING THE ECONOMY AND
REVIVING TOURISM

In conversation with



Satish Padmanabhan
Executive Editor, Outlook

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on

July 5th, Sunday, 11:00 a.m.



Many MSMEs Will Be Left Out Of The Stimulus Package

Shreekanth Somany, Chairman and Managing Director (CMD), Somany Ceramics and also Chairman, CII National MSME Council spoke to **Yagnesh Kansara** about the impact of the PM's Atmanirbhar package for MSMEs and how it will help revive the sector.

➔ Do you think the amount allocated for the MSMEs is adequate for the companies in the backdrop of the hit?

Yes, the micro, small and medium enterprises (MSMEs) have received major relief in the form of a tailor-made stimulus package offered by the Narendra Modi government. Also there are no significant MSME requests in recent weeks to enhance the extent of working capital granted by the Banks that would indicate that the current provisions are inadequate.

➔ How do you see the process of loan disbursement by banks after government's stimulus package?

So far the information seems to indicate that banks have not been able to fully disburse the funds due to lack of demand. There are also reports that MSMEs are not availing of the deferment of EMIs. While some of this is related to the cost of deferment due to elongation of the payback period, it also indicates that cost of funds rather than shortage of funds is of greater concern. In other words, the problem of shortage of available funds is not the primary concern of MSMEs today.

There are news that banks are eager to meet the disbursement targets, but this may also lead to loosen credit standards and they would be keeping a check on their asset quality track record. In few cases, the banks are even identifying borrowers with a bad repayment.

➔ Many entrepreneurs have complained of red tape while applying for loans from Public Sector Banks (PSBs) and other agencies. Despite these loans being guaranteed by the central government a long list of documents is

being demanded from the loan seekers just to discourage them. Your views.?

I have not heard of any such complaints, or such apprehensions been expressed. For the most part, the scheme to automatically enhance the working capital sanction by 20 per cent, with borrowers requesting for enhancements not to be done, seems to be working.

➔ Do you think the scheme will add to Non-Performing Assets (NPAs) of banks as demand side revival may take a long time? When do you expect normalcy to return in the economy?

Based on guidelines issued by SBI, and similar guidelines by other Public Sector Banks the loans are not being given to those with a ranking of SMA2 and below on Feb 29, 2020, or those having a default exceeding 60 days pre-COVID crisis. This exclusion should screen out borrowers already in financial trouble even without the hit from the crisis. The balance borrowers being viable in "normal" times can be expected to bounce back to health within a few months of situation returning to Normal.

As per an article in Bloomberg on June 11, 2020, the Finance Ministry sources have said that by June 5, 2020, the state-run banks had sanctioned ₹17,706 crore worth of collateral-free loans under the Emergency Credit Line Guarantee Scheme (ECLGS) according to data from the Finance Ministry. According to finance ministry data, State Bank of India, Punjab National Bank, Union Bank of India, Bank of Baroda and Canara Bank have sanctioned the highest amount of ECLGS loans till date.

The article further quotes CS Setty, Managing Director at State Bank of India, which has the largest sanctions, said the bank has been able to identify and contact 8.14 lakh eligible borrowers, all of whom were sent SMSes and offer letters starting from the beginning of this month. Over one lakh customers

The cost of funds rather shortage of funds is of greater concern



have given their consent and loans aggregating ₹12,905 crore have been sanctioned. Disbursements, amounting to ₹7,030 crore have gone to 60,674 MSMEs. As per Shetty, disbursement may be lower now as some borrowers may want to utilise the limits as they need and SBI has given the borrower the option to withdraw the money in tranches over time.

As CII, we are hopeful and confident that this package will serve the desired purpose. CII has contributed a lot through recommendations submitted and the central government has been kind enough to cater to the needs of majority in the sector. The key pain points of the industry have been well addressed keeping in view the long term effects.

This will not add to the bank NPA as due to the stricter norms of CIBIL ratings and banking norms, the entrepreneurs are cautious enough to misuse the credit facility availed and for that reason obviously, many are not availing increased credit facilities. It is true that demand side revival will take longer duration to catch up, more specifically luxury segment. Therefore this should not be significant.

Ratan Tata has shared his opinion that to forget FY 20-21, the dynamics of business will change post

MSMEs who are part of FMCG supply chains should also benefit from revival of demand

COVID. Many existing business models will get wiped out and a few new business models will evolve. Many businesses will recover in FY 21-22 and a few business models will become a habit like video conferencing. Such business models may require enough moratorium and hand-holding support and economic package for retention. A few of these sectors include hospitality, entertainment, branded clothing and luxury items.

Which are the sectors in the MSME segment that will benefit the most from the PM's package and why?

The small and medium sectors should benefit more than the micro sectors, which may not have pre-existing formal Banking relations. This should encourage such micro enterprises to also enter the formal sector. Service sector, particularly related to e-commerce and delivery and logistics should benefit most from the revival of demand with cash flows supported by the PMs package. MSMEs who are part of FMCG supply chains should also benefit from early revival of demand. In terms of industry segments, the tourism, travel, hard goods, and auto industry supply chains may not benefit due to lack of demand. ■

yagnesh@outlookindia.com

More Means Less In MSME Mess

Without robust and healthy MSMEs the economic and business skeleton of the nation can come crashing down

By Aparajita Gupta

Four major crises in less than four years! From demonetisation, Goods and Services Tax (GST), economic slowdown, to COVID-19 catastrophe! The first killed many MSMEs. The second forced some to shut shop. The third led to fear and loathing. And the fourth, well, it decimated the sector. The future of more than 60 million Micro, Small, and Medium Enterprises (MSMEs) hangs by a thin thread. If the government-induced stimulus doesn't work – the initial signs indicate that it is unlikely – the India economy is likely to go into a tailspin.

The policy makers assure us that we need to wait, as it takes a lot of effort to re-start a large economy like India after a nationwide lockdown for two months. They repeat that things have begun to move, and the positive impact will be visible in the coming months. "It's too early to comment because many sectors resumed work only a few weeks ago," says Anurag Thakur, Union Minister of State for Finance (See Interview on Page 26) He adds that the government took "extraordinary steps" in an "extraordinary situation." Sadly, time is at a

premium. If the straggling MSMEs are unable to recover from their precarious state of a combination of near-paralysis and comatose by September 2020, be prepared for an economic mayhem. The pandemic will turn into a pandemonium. Remember that the MSMEs account for a third of gross value added, more than 100 million jobs, and half the country's exports.

Without them, the economic and business skeleton that India carefully constructed over the past few years can come crashing down.

A recent sector-wide survey concluded that four-fifths of the MSMEs had no faith in the official stimulus package that was announced more than a month ago. They want more. They pray that the government realises that what it thinks is more than enough to revive the economy, and MSMEs, is too less. The reason: there are several challenges in the implementation of these measures. The ground reality is different from the reports that the officials receive. The various stakeholders do not seem to be on the same page.

Despite the government guarantee, the banks are nervous to lend more money to the MSMEs. Hence, the lenders give excuses to fob off firms, especially



the micro and smaller ones. Lack of clarity on equity-related policies results in a lack of confidence among entrepreneurs. Political and non-economic actors seem to have a larger say in how the schemes operate. There is uncertainty about what to do first – push credit to the firms to kick-start supply, or put money in the consumers' hands to rejuvenate demand.

The liquidity factor

There is no doubt that the MSMEs need funds merely to resume their businesses. They have run out of cash, saddled as they are with both raw materials and components that they couldn't use, and finished products that they couldn't sell for more than two months. This is where the government-backed emergency line of credit of ₹300,000 crore, which comes without collateral and at lower interest rate, will help. Until July 19 this year, slightly more than ₹20,000 crore was disbursed under the scheme.

"Many impacted businesses need funds to meet their built-up operational liabilities, working capital requirements, and salary payments. This will help MSMEs to resume their activities," says Raman Sobti,

Partner and National Leader, KPMG India. DK Aggarwal, President, PHD Chamber of Commerce, adds, "The various reforms will enable the MSMEs to produce and compete strongly in the marketplace." It will allow them to get over the immediate crises, and stabilise their operations until revenues flow in.

However, the problem is that the banks are not interested to provide extra money to the MSMEs for two reasons. The first is that India Inc is in a wobbly situation. Most firms, whether large or small, and especially in critical sectors such as aviation, tourism, retail, logistics, and others, have either collapsed or are on the verge of bankruptcy. The MSME is one of the worst affected segments. The banks, therefore, are more worried about how to protect their existing loan exposures, and ensure that they don't turn into NPAs.

Given this mindset among lenders, it is logical that they will be cagey to extend fresh loans, even if they are dictated by the government. They will find reasons, reasonable or otherwise, to delay and reject new loan applications. "The MSMEs face a number of difficulties. Some conditions or others are imposed by the banks on them. Sometimes, the latter are asked to furnish absurd documents," claims Pradeep Multani, Vice President, PHD Chamber of Commerce, and Chairman, Multani Pharmaceuticals.

For example, an MSME that has availed of past loans from a bank can enhance its exposure by 20 per cent under the emergency credit scheme, as long as the credit has not turned into an NPA. No fresh documents have to be submitted as the bank already possesses the key papers under its KYC norms. Despite this, the bank insists on new financial records for the past three months. This seems preposterous because the firm has had no business in the past 90 days because of COVID-19, and has nothing to show for this period.

Add to this the fact that many entrepreneurs in the MSME sector are not trained and professional managers. They comprise business families that are nimble, flexible, and take advantage of new opportunities. They don't understand the intricacies of government schemes, and are likely to get flustered by



KR SEKAR

Partner, Deloitte India

51% of MSMEs are in rural sector. Unless rural credit is opened up, the impact will be minimal

the jargon thrown at them by the bankers. A majority function in the semi-urban and rural markets, and have irregularly and intermittently dealt with the formal credit and banking system in the past.

Hence, says Arvind Sharma, Partner, Shardul Amarchand Mangaldas & Co, there is a need to “strengthen training of, and awareness among, MSMEs, as well as provide institutional support to ensure accelerated growth” in the near future. Both civil servants and bankers have to be sensitised to encourage loans, rather than dissuade potential lenders. “In India, 51 per cent of MSMEs are in the rural sector. Unless rural credit is opened up, the impact will be minimal,” explains KR Sekar, Partner, Deloitte India.

The political factor

One of the solutions, according to Sekar, is to mandate, rather than urge and nudge, banks to lend fresh money to the MSMEs, and make the process simpler. The second, feels Multani, is for the government to monitor disbursements of the loans at the ground level. “Mere issuances of loan sanction letters by the bankers are not enough,” he adds. According to union minister Thakur, in the first few days of the emergency credit scheme, while ₹25,000 crore of loans were sanctioned, ₹14,000 crore were disbursed.

Even if the banks open the credit pipeline, and let the money flow to the MSMEs, there is a skew or bias among the lenders. The first is that given the fears of future NPAs, there is the tendency to give loans to the larger MSMEs. This is because the bankers rightly or wrongly feel that they are in a better position to survive, and repay the amounts in the future. The bitter fact is that it is the smaller and micro enterprises that are in dire need of fresh funds. Without it, they will die, i.e. if they already haven’t.

As banks become choosy, which they have, political and non-economic actors can influence their decisions. State-owned banks are amenable to pressures, both at the national and states’ levels. Who gets the loan, and who doesn’t, can be decided by factors that are not related to the state of business or future viability. In such



RAMAN SOBTI

Partner and National Leader, KPMG India

Businesses need funds to meet operational liabilities, working capital and salary payments



Photo: Bhupinder Singh

a scenario, nepotism and crony-capitalism can raise their ugly heads, and derail the recovery process.

Therefore, it is imperative to ensure that the sanctions and disbursements are transparent. According to sources, there were 10-20 per cent of MSMEs which, in the pre-COVID period, had decided to exit their businesses due to various factors. Now, they may get a chance to do it profitably. Such firms can use their influence and clout to get fresh loans, siphon off the money, and later declare bankruptcy. The policy makers and bankers need to be aware of this, and make sure that the loans go to those who are serious to turn around their operations. Or else, a sizeable proportion of the new loans will turn into NPAs.

The equity factor

It is evident that the net worth of most MSMEs was eroded by COVID-19. Their balance sheets need to be bolstered by infusion of fresh equity. One of the ways that this can happen now is through the new ‘Fund of Funds’ (FFS) with a corpus of ₹50,000 crore. Sobti points out that other nations announced similar plans. In the UK, it is available to unlisted, but registered, firms that had raised £250,000 each in the past. In Poland, the equity fund can be used by those that meet fixed employees and turnover criteria.

Although the details of the MSME FFS aren’t available, there is a precedent to go by. For instance, the FFS for start-ups is modeled on the Mother-



Daughters concept. The government gives the money to the 'Mother' fund, which distributes it among the daughters, the 650-odd, privately-pooled Alternate Investment Funds (AIFs) that are registered with Sebi. The professional managers of the AIFs take the final decision on which start-up to invest in. This ensures professional decision-making, and prevents the government from becoming a direct shareholder in the start-ups.

In the case of the MSME FFS too, Sobti insists that "an innovative approach" is required for the proper use of the funds. He adds that the government can seek "a hybrid model, which is operated under the government framework, and managed by professional fund managers". These may seem to be a clear-cut strategy, but can create contradictions. While the government's goal is to "support good firms" in the medium term, the desire of the professional managers is to seek high returns within a short period.

However, if the MSME FFS is handled properly, it can lead to several positive consequences for the sector. "The FFS can help MSMEs with good credit rating and GST record to expand their capacities and size. This will encourage them to get listed on the stock exchanges in the future," explains Sachin Seth, Partner (Digital & Fintech Leader), EY India. A listing will enable the firms to raise more money, expand further, become more professional, adopt global best practices, and graduate into the mid-size segment.



ARVIND SHARMA,
Partner, Shardul Amarchand Mangaldas & Co

Strengthen training and awareness among MSMEs, and provide institutional support

The demand factor

At the end of the day, the schemes related to loan and equity infusion can spur supplies, and help the MSMEs to immediately commence production. However, this may prove to be irrelevant, if the consumers don't have the money to purchase the goods. For example, if there are no buyers for cars, the MSMEs that supply to the auto component vendors will not benefit.

As Sekar puts it, the government has to "revive demand completely" or the supply-side measures will only have "a limited impact". One of the policies to boost demand is to disallow global players to participate in government tenders up to ₹200 crore each. This will give the MSMEs an opportunity to grab new orders. Other decisions include moratorium on loan repayments, and delay in the filing of tax returns. However, these are temporary and limited moves, which are unlikely to excite the MSMEs. Critics contend that the government hasn't focused enough to put more money in the hands of the consumers – and this issue has to be adequately addressed.

Apart from consumption constraints, more can be done on the supply-side. Seth feels the need to introduce holistic reforms to enable MSMEs to scale up, and become globally competitive. Existing policies have to be tweaked. A few states recently opted for stringent labor laws to benefit owners, and woo investments. Higher investment limits for MSMEs – across micro, small and medium segments – are aimed to encourage promoters to become bigger without the fear that they will lose the sops that they enjoy as MSMEs.

Such decisions can be counter-productive. Strict labour laws can dissuade investors, especially foreigners who are bound by pro-worker laws in their own countries. What they want are flexible rules. Similarly, higher investment limits in the MSME sector introduces more competition, as larger firms that were not defined as MSMEs can now avail of the benefits.

Instead of an enabler, i.e. help smaller firms to become bigger, they can prove to be a deflator, and enable the bigger firms to kill the smaller ones. ■

aparajita@outlookindia.com

Govt's Credit Plan Needs To Be Expanded

While units worth ₹250 crore turnover are now MSMEs, yet credit line is not available for units exceeding ₹100 crore turnover

By Vishav

The government, while funding ₹3 lakh crore under Emergency Credit Line Guarantee Scheme (ECLGS), said it was a specific response to the unprecedented lockdown, which severely impacted manufacturing and other activities in the MSME sector. Under the scheme, borrowers with up to ₹25 crore of outstanding credit can avail an additional credit of 20 per cent of the loan outstanding from banks, NBFCs, and other financial institutions. The government would stand guarantee for this additional credit for loans taken till October 31.

As on June 20, banks from public and private sectors had already sanctioned loans worth ₹79,000 crore, of which over ₹35,000 crore had already been disbursed. Banks like SBI, HDFC Bank, Bank of Baroda, PNB and Canara Bank were among the top lenders.

Finance Ministry official spokesperson claims the scheme has so far helped 19 lakh MSMEs and other businesses restart their operations.

According to Sameer Mittal, Chairman of International Trade Council in India, and Managing Partner at Sameer Mittal and Associates, one needs to understand that the scheme is valid only for existing customers of a bank, NBFC or FI, but does not cover new borrowers. Also, the government in June changed the definition of MSME wherein the units with a turnover of ₹250 crore get covered, revised upwards from ₹100 crore as announced in May. And yet the credit line is available for the borrowers having turnover up to ₹100 crore.

“So though the entities with a turnover of ₹250 crore might get classified as MSME, yet the credit line would not be available if the turnover exceeds 100 crore. Further the loan amount that can be disbursed is capped



at 20 per cent of the loan outstanding on February 29, 2020. So there are instances when the entity did not have any outstanding loan as on February 29, but is in need of funds now. Now it will not be eligible. Therefore the government needs to bridge this gap,” Mittal explains.

He adds the scheme had received a “very slow response” from the private bankers and NBFCs, who in spite of the sovereign guarantee are very slow in the implementation of the scheme. The banks are still risk averse and fear the future risk of NPA in their balance sheet, he says.

Rajesh Sharma, Managing Director, Capri Global Capital (which has a large portfolio of micro and small business borrowers), however, claims the fiscal boost for MSME sector had come at an opportune time when MSMEs were facing severe liquidity pressure.

“Most of our MSME borrowers are covered under the ECLGS to help them tide over the economic distress due to pandemic. We have pre-approved customers, who are eligible for the ₹3 lakh crore guarantee scheme and are reaching out to these customers in a strategic way,” he says.

Sharma adds that since the scheme does not cover the loans provided in individual capacity for business purposes, which is typically preferred borrowing mode by the large segment of micro and small business owners, this exclusion needs to be addressed on priority as such borrowers are missing out on the benefits. ■

vishav@outlookindia.com

No Ready-Made Solutions

Investors should prepare for fallout of conflict with China



SAIBAL DASGUPTA

Wise men advise us to anticipate future challenges and be prepared for them. Smart companies and managements invariably have Plan B and Plan C, along with enough cash reserves to tackle crises. Individuals are generally advised to hold the equivalent of six months' income as cash to stave off uncertainties. In addition, they need to own assets like a self-owned house.

However, is it possible to do so for 'Black Swan' events? Can we ever save enough, or protect ourselves enough for something that's unimaginable, unexpected, and unthinkable? COVID-19 was one such event when professional managers found themselves at a loss of ideas, which led to an axing of a large number of staff, and losses and misery to investors. In most factories, there were months when production and sales were halted as the Coronavirus spread like wildfire across India.

The markets slide due to COVID-19 affected the fortunes of over 50 million stock and mutual fund investors in India. Though there have been stray signs of improvement, the market situation remains a gloomy one.

These are times when the nation needs a stimulus – not one of cash and credit, but one of morale and sentiments. An impetus to drive a nation to see opportunities, where there was dread. As Prime Minister Narendra Modi said, "There can't be a better time for a new beginning." He added that consumption and demand were fast attaining pre-COVID levels.

The crisis exposed the fact that a vast number of Indian companies have not built sufficient strength to handle production halt and market setback of a few months. There are many reasons for this, which include a curious refusal to upgrade production technology and plan for the long term.

An important question is whether companies, individuals and governments are ready, not just for this crisis but the next one. It would be absurd to imagine that we have reached a point when there will be no more crisis after tackling a serious slowdown and the ongoing health crisis. An emerging danger is the likely impact of border clashes with China, and the call to boycott Chinese



goods which can impact foreign fund flows and drag down the market in the medium and long term. No one can deny the importance of self-reliance, which is linked to the 'boycott' move besides being an emotional response to the border trouble.

It's true that the clashes did not cause immediate jitters in the stock market, which actually went into a recovery path after declines seen during the weeks of lockdown. This may partly because the market has factored in occasional skirmishes on the border and did not see it as a long-term breach in trade relationship with China.

Just because the market read the cross-border situation in a certain manner does not mean it is the perfect one. Stock players take into account not one but many factors before opting for one of the two animals—bear or bull—or choosing to stay some distance away from both.

Stock and mutual fund investors need to think ahead and prepare for the possible fallout of intense trade friction with China as it would leave Indian companies seriously in deep trouble. For example, nearly 60 per cent of the consumer electronic industry, a major attraction for investors in stocks and mutual funds, depend on China-made components and spare parts.

There are no ready-made solutions that one can offer to the retail investor in stocks and mutual funds. A safe option is to rely on successful companies, whether big, medium or small, with strong management capabilities and a strong desire to continuously upgrade their technologies. Those with linkages with the international supply chain will also do well. ■

Are companies ready for not just Covid but also the next crisis?

saibal@outlookindia.com

Govt Is Monitoring And Tweaking The MSME Revival Package

*The government's decision to inject stimulus in Micro, Small and Medium Enterprises (MSMEs) is not only meant to help them recover from the pandemic crisis but also encourage them to contribute to the overall goal of creating a \$5 trillion economy by 2024. Union Minister of State for Finance **Anurag Thakur**, discusses his government's reform measures in conversation with **Rajat Mishra***



ANURAG THAKUR
Union Minister of State for Finance

❑ **All India Manufacturing Association's (AIMO) recent survey showed 78 per cent of the MSME do not see any hope of recovery despite the government's stimulus package. Instead, they expect other forms of assistance. What is your view?**

Whatever decision has been taken in the past was done after due consultations with industry leaders. It is too early to comment anything because many sectors have resumed work only a few weeks ago. We are closely monitoring the progress of Rs 3 lakh crore emergency credit line announced under 'Atmanirbhar' package, on a weekly basis. A portion of the funds has already been sanctioned and

disbursed. This clearly indicates the scheme has taken off. We need to wait for the demand to improve. The disbursement will be much more in the coming days.

❑ **The MSME is one of the hardest hit sectors. Could we say this is not the only measure the government is going to take?**

During this pandemic, nobody can say what tomorrow holds for you. You need to look at how the situation pans out. We are interacting with various industry leaders and things have started moving. It takes a lot to restart economic activity of a huge country like India, after months of complete shutdown.

If we look back at 2014, when we took over from UPA, we may have had taken some time to begin with, but the next five years saw over 7.5 per cent growth.

Even now our policy decisions include measures for future reforms. We will see the impact in the coming months.

➡ **Recently, Piyush Goyal had asked real estate developers to reduce prices and sell their inventories without waiting for the market to improve. He also added that there would be no bailout package. What is the government's official stand?**

It is up to the industry. They should look at it from project to project basis and how much would the inventory cost, or even what have to be amended, or the bank's position. I cannot comment because the department has not taken any call on the subject. Goyal is a senior leader and he may have expressed his views.

➡ **Credit rating agency Crisil has said bank credit growth will decline to a multi-decade low of 1 per cent. Do you think that taking credit will be a big hurdle in implementing the government's liquidity package?**

In situations like these you will see many hurdles, but the issue is whether the government is active. And when you take any decision to help the industry and economy to grow it is not only to revive but also to achieve our target of \$5 trillion by 2024. The government is monitoring bank loan disbursement on a day-to-day basis and companies are coming forward to seek the benefit of these initiatives. The entire corpus of ₹3 lakh crore emergency credit line is to be disbursed until October 31. It is going to be utilised much before that.

➡ **Do you think the government must change its deadline of 2024 to achieve a \$5 trillion economy, as the pandemic has created a havoc?**

Not really, because our intention should be focused on how to take advantage of the geopolitical situation or favourable conditions for India. So, India should work in that direction not only to look at the revival but look at the target of \$5 trillion by 2024. As it is an



Banks should disburse money as early as possible to help businesses revive

extraordinary situation, we are trying to take extraordinary steps.

➡ **How do you plan to discipline banks that showed reluctance in implementing the liquidity programme?**

We are monitoring every activity on a weekly basis. The finance minister is regularly meeting with the public sector banks. They have been clearly told to come up with every detail on how much loan they have sanctioned so far under this scheme.

➡ **Could you tell us how the government plans protect banks from NPA, arising out of this collateral-free loan plan?**

There is a 100 per cent guarantee from the government and the banks should not fret but give 20 per cent of the additional working capital to existing account holders. They should disburse money as early as possible to help businesses revive, including MSMEs.

➡ **Given the large scale damage done by COVID-19, do you see several other announcements from the government or a big bang reform measure?**

I have already said you do not know what the future holds for you. If you look at the first step, we gave industry a relaxation in compliance burden. The second step we took was Pradhan Mantri Garib Kalyan Yojna, where food grain and money problem was sorted. Later, we decided on an economic package - Atmanirbhar Bharat - where not just liquidity but reform measures have been taken care of.

➡ **There is a likely shortfall in GST collection. How does the government plan to compensate states? Was there any discussion on the same in GST council meeting?**

We have taken it up in the last GST council meeting among various stakeholders that all states and union territories could come up with the idea on what could be done. A special meeting will be held with state governments just to discuss this issue for an amicable solution. ■

rajat@outlookindia.com

Need For Inclusive Credit Delivery

The MSME sector is in dire need for liquidity to restart work



SHACHINDRA NATH

The MSME sector has been witnessing liquidity stress due to prolonged economic slowdown. The COVID-19 pandemic has made the scenario even more challenging as the lenders have drastically reduced their credit exposure to the sector. On the other hand, economic disruptions due to COVID-19 have disturbed the cash-flow cycle of the MSMEs. As a result, the SME sector which contributes approximately 25 per cent to the GDP from the service segment and more than 33 per cent to the manufacturing output is going through immense working capital stress. And a section of the SMEs becoming unsustainable because of liquidity stress is not a good sign for the economy, as the sector generates 1.3 million jobs every year. So, given the role the SMEs have been playing to drive the economy forward, the segment needs to be rejuvenated so that economy gets back on track and becomes truly self-reliant. The success of the government's call to 'be vocal for local' depends on the collective resilience of the SMEs.

However, the inherent strength of the SME segment can be measured from the fact that almost 90 per cent of the SME doesn't have access to formal credit. Due to the lack of credit support, the SMEs are unable to leverage their scalability potential. Bridging the SME credit gap of \$600 billion is a huge challenge. The fragmented nature of SME sector makes it challenging for the large financial institutions to service the needs of the small businesses as they follow a pre-defined underwriting process which doesn't deep dive into the revenue cycles, per-customer-value of those small businesses. As a result, the SME segment has always been suffering from credit under-penetration. Given the present SME lending scenario, access to credit is set to become even more challenging, as conventional channels of credit are turning increasingly risk-averse and NBFCs are fighting their own liquidity issues.

SME sector now desperately wants government

support to survive this time of crisis and return to the growth path. The recently announced Rs 3.75 lakh crore package for the MSME has made an earnest attempt to address the capital crunch of the sector. Announcements like Rs 3 lakh crore collateral free automatic loans, Rs 20,000 crore subordinate debt for stressed MSMEs, Rs 50,000 crore of equity infusion for MSMEs through a fund of funds, etc. are expected to offer the liquidity support to the government.

However, to ensure effective transmission of those benefits to the SMEs, the government needs to make SME credit delivery system more inclusive. One way to do is to leverage digital underwriting capabilities of NBFCs and SME lending institutions. The government needs to rethink their approach to SME credit underwriting mechanism, risk assessment framework so that small businesses become an integral part of the economic revival post-COVID.

In addition, the SME credit eco-system should also address the immediate challenges that the SMEs are facing due to disrupted revenue cycle such as payment commitments to vendors, salary commitments to employees and other recurring payment commitments. The SME lenders need to roll out sustainability finance to the SMEs in the form of term loans to help SMEs meet those expenses.

Simultaneously, the government should also focus on developing an enabling environment so that new-age SME lenders can build deep sectoral specialisation and technology proficiency in order to develop underwriting platforms capable of reaching out to all the SME segments.

The SME growth story of India is quite inspiring and the impact of COVID-19 will not be able to destabilise the sector in the long run. The sector requires liquidity flow to restart their activities. The banking and financial institutions, regulator and the government must come together to support SMEs so that the story of the indomitable spirit of entrepreneurship continues to fascinate SME sector. ■

Lack of credit affects SMEs from leveraging their scalability

The author is Executive Chairman and Managing Director at UI GRO Capital

Becoming Atmanirbhar: Why You Need To Build an Emergency Corpus



Mr. Rohit Kumar
(Certified Financial Planner)
MD, Virat Financial Services

The faulty light bulb going on and off every few seconds can be replaced. If your debit card is misplaced, you can block the card and get a replacement within 48 hours. However, a sharp decline in income or an unanticipated job loss is tough to handle. It's an emergency, S.O.S, crisis, disaster - pick a name. This is why you need to have an emergency corpus. A large enough emergency corpus can help you deal with any financial calamity brought on by events such as the ongoing Covid-19 economic slowdown. As the nation looks towards becoming 'Atmanirbhar', each individual, that includes you, should have adequate emergency funds at your disposal.

Uncertainty: the only certainty

There are always a best case scenario, a base-case scenario, and a worst-case scenario. But advocates of Murphy's Law will tell you that: "Anything that can go wrong will go wrong". The nice part of this uncertainty is that you can prepare, well in advance, for

the not-so-good times.

Like everything else with personal finance, an emergency fund is a personal situation. What constitutes an emergency depends upon your individual situation. But typically, a sudden drop in income is universally considered an emergency. Also, a big health-related expense can be an emergency.

All of us have bills to pay each month, and we maintain the balance by earning the money that we need to spend. When your income drops or vanishes, expenses still exist. On the other hand, if your expenses shoot up for a short period of time, your earnings may not shoot up to cover them.

These are the reasons why more and more people are accepting the prudence in having an emergency source of cash to meet expenses and obligations. With emergency funds at their disposal, there is no need to run pillar to post for loans during such a situation.

Liquid realities of today

The right amount for an emergency fund can vary from person to person. But as a thumb-rule, saving 6-12 months of expenses including EMIs is a good beginning. You can always build this corpus into a mountain that can financially support you for years to come. Start the process today.

To be in a good position to cover unexpected expenses, an emergency fund should be liquid. Believe us, this is the most critical feature that you should keep in mind when you are choosing where to park your emergency funds. S.O.S money kept in non-financial assets is not liquid. When you need money at a quick notice, you can't hope to sell things

to collect the cash!

You should be able to easily withdraw the emergency money when you need it and with minimum/zero delay. Apart from bank deposits, a great option is liquid mutual funds, which are more tax-efficient; deliver higher than savings bank account returns but with a comparable safety profile. Safety is of paramount importance when it is about where the emergency money is kept. The safer the money is, the brighter the chances that you can get it when you want it. Years may pass when you don't need the emergency money, till one fine morning..

War chest, peace of mind

Having strength in one's own finances gives confidence. It also allows family members to understand that their lives will not be disturbed. Emergency money is a war chest. It is about being ready for unforeseen exigencies that are not likely in your control.

Begin by contributing a fixed sum to the emergency fund. For example if you want to build one with Rs 10 lakh, invest ₹5,000 or ₹10,000 (or more) every month to accumulate the corpus you will need. It may take a while to get to the target. Like all good habits, it's about being disciplined. To preserve the emergency funds, keep the money out of easy sight, or else you may just end up spending it.

To be doubly sure, define the use of 'emergency funds'. Avoid succumbing to the temptation of dipping into that pot of money whenever you fall short of money. The emergency fund is the shock absorber in a person's financial life. Assess the adequacy of the emergency fund as part of your annual financial plan review. Whenever there is an event that has an impact on income and expenses, check if your emergency corpus is adequate. ■



Border Clashes Can Hit Funds Flow, Market Mood

Hemang Jani, Head - Retail Equity Strategist of Motilal Oswal Financial Services tell **Saibal Dasgupta** and **Himali Patel** about the serious impact that India-China conflict would have on market sentiments

➤ If the border clashes continue for some more time, what impact could it have on Indian market sentiments?

The recent deadly face-off between the Indian and Chinese troops along the Line of Actual Control in eastern Ladakh and Sikkim led to the death of 20 Indian soldiers and 35 Chinese soldiers. It needs to be seen whether the tensions escalate further or gets resolved with dialogues as it could have political, economic, diplomatic and cultural consequences. In case it aggravates, it would be a big challenge in front of India as it heavily relies on China for imports. China accounts for ~14 per cent of India's total imports, while India's total exports to the country is a mere 3 per cent. This trade deficit with China, also a major contributor to India's overall trade deficit, is one of the world's biggest trade deficits between two nations. Thus, this geo-political tension could add further uncertainty to companies that are already reeling under the pandemic.

➤ Could you identify sectors that would be affected more?

A large extent of companies imports parts or capital from China; thus, they would have to find alternative sources if tensions escalate. They had suffered when China saw the initial phase of the outbreak that shuttered plants. Now if another disruption is faced it can further prolong the economic recovery. Hence, a large number of sectors like consumer durable, electronics, pharma/ chemicals, auto components, engineering goods and some of the e-commerce companies may have to rework their business strategies if the tension escalates. Further there is huge amount of Chinese investment in India, which is increasing rapidly as China-based companies are stepping up their investments in Indian companies, including the start-ups. Thus, any disruption of trade ties between the two countries will substantially hurt Indian businesses given their limited manufacturing ability.

➤ Could you mention companies that might be most impacted because they are dependent on Chinese imports or capital or otherwise?

More than 70 per cent of the smartphones across price brands come from China. Xiaomi even has a manufacturing plant in India, which if asked to shut could lead to huge unemployment. Telecom companies import various equipment from China, which now government is considering to stop. Consumer durables



and electrical companies also rely heavily on China to the extent 60 per cent of the parts are fabricated there. Capital goods—essentially heavy machinery used in producing finished products, is the second highest import from China. Pharma/chemicals is another space where dependency on China is very high at around 60 per cent. Then sectors like auto components and home appliances also source one-fourth of their requirements from China. On the other hand, defence is the only sector which may emerge as winner if the standoff prolongs.

At a time, when the world is trying to move out of China, India needs to leverage its strength as a consumer market and must ensure ease of doing business and infrastructure so that it can become a big manufacturer in other sectors apart from auto where it is already big. India needs to prioritise self-sufficiency, invest in R&D, strengthen the public sector, and move beyond imitation or improvisation to true innovation at scale.

This tension could add further uncertainty to companies already reeling under the pandemic

Thus the government is working on steps to reduce import dependence on China and boost domestic manufacturing. The Confederation of All India Traders (CAIT) recently released a list of 500 categories of products imported from China, which can be swapped with goods made in India. The commerce ministry has also identified 12 sectors including metals, agro chemicals, electronics, industrial machinery, auto parts to make India a global player and cut import bill. Further to cut import dependency on China for APIs, the

government in March approved a package to boost domestic production of bulk drugs and medical devices in the country along with their exports.

The government is also making efforts to attract global companies that are seeking to set up alternate global supply chains outside China. It is putting import restrictions on various products to push local manufacturing – the most recent being on tyres. It also making its prior approval mandatory for foreign investments from countries that share land border with India, to curb opportunistic takeovers of domestic firms, a move which will restrict FDI from China.

➤ **What is the extent of portfolio investment by Chinese companies in Indian equity? Did the market expect a bigger portfolio investment from China?**

Currently the equity markets are holding up as both the countries have history of face-offs. It has been seen that these events are more short term in nature and investors have nothing to worry about. However, the challenge now is to de-escalate the border tension, which if fails will have severe repercussions on many sectors and thus would drag the market down, because reliance on China cannot be stopped overnight. It may also have an adverse impact on foreign fund flows to Indian shares. Usually, these are known as 'Black Swan' events and no one can predict the bottom for the market at such times.

In such times, investors should keep calm and not panic. Long-term investors with good quality stocks should hold on to their portfolios and see through the storm as good stocks get cheaper and attractive. In the past crisis, we noted that a combination of extreme fear and attractive valuations provided good foundation for healthy long-term equity returns. The best strategy for investors would be to accumulate good fundamental and quality stocks. While it is very difficult to predict the bottom of the market during such events, it always rewards investors in the long run who take advantage of the sharp fall. ■

saibal@outlookindia.com, himali@outlookindia.com



MF Investments In Small And Mid Caps Hold Promise



DHIRENDRA KUMAR

Tis extremely important for investors to understand the market for small and medium cap companies, particularly when it comes to investing in this segment through the instrument of mutual funds.

There are 3245 listed small-cap companies in India, 160 mid-cap ones, and only 73 large-cap ones. Most of these stocks represent small and medium companies, which the government is eager to assist and help in their recovery from the ill-effects of the pandemic.

Investors need to analyse carefully what is feasible in terms of research into these companies and what should be left alone. Investing in smaller companies are equivalent to what is called a 'percentage shot' in cricket.

So investors need to have a strong desire and the right attitude to manage the percentages. Succeed at a higher percentage, and fail at a lower percentage. Be prepared for the occasional bust and know precisely how to recognise it, when to acknowledge it to oneself and let go. Just as importantly, be really, really prepared for the gigantic winners and own them all the way till they become mid-caps or even large-caps.

If investments are made only in large, well-understood, and over-analysed companies, then investors could do well with them and yet never really have a winner. Make no mistake, this more stable investing is important and must be there in every portfolio but it will not deliver any outsize impact. I mean it's possible to invest for years in large-caps and have returns that are kind-of-okay. Smaller companies provide that extra boost which many investors want.

Why Mutual Funds?

As an individual, can you mount any meaningful research on 3000+ companies? Can any one of us even begin to understand the business of any but a handful of companies, let alone acquire enough understanding and insight to be confident enough for investing in a company? For large companies, it's not

difficult to keep tabs on 70-odd ones because there is so much pre-digested knowledge available.

That's where mutual funds come in. Fund companies are in the business of tracking a large number of companies and running investment portfolios that are composed of a balanced set of chosen stocks. A portfolio is not just a collection but a structure where different stocks of different risk, sectoral and business profiles play a complementary role. This is something entirely out of the purview of an individual investor and yet something which is easily available as a service from a mutual fund. For getting your share of small cap returns, there is no serious alternative.

Which Mutual Funds?

There are 24 small-cap mutual funds in India. Their track records, in length and quality, vary greatly. The oldest was launched more than two decades ago while the youngest just four months back. There are three small-cap funds that we believe are the best choices for investors. These are Franklin India Smaller Companies Fund, HDFC Small Cap Fund and SBI Small Cap Fund.

In our system, these are classified as 'Aggressive Growth' funds, which is exactly what I've described above as being the goal of small-cap investing. Of course, like all equity funds, one must invest in any of these in a lump sum. A Systematic Investment Plan (SIP) is the only way one should invest in asset types of high variability.

I'm sure you'll agree that while smaller companies are a great opportunity for boosting long-term returns, their variability means that they should not play an outsize role in your whole scheme things.

Let me elaborate. Individuals who invest in equities must exploit the outsized returns that are available in small-cap and mid-cap stocks. I'm not saying that they should invest only in ALL small and mid-cap stocks--that would be too risky--but that these stocks should be a significant chunk of their equity investments. For most of us, the best way--perhaps the only way--to do this effectively is to invest through mutual funds.

Let's understand both parts of this story. For investors, the rewards from equity investing come from dealing with the variability in business' performance and stock prices. It means that to make money, there

Investing in small caps is like 'percentage shot' in cricket



are two important factors. There should be variability and you should be able to deal with it. The first is supplied by the nature of equities and the second, in this case, by choosing the right kind of mutual fund.

Why Variability Is Key

Instinctively, all of us know very well that it's the variability of equities that make them great an investment opportunity. Some stocks will do better than others, some will do worse. Some stocks will do better in the future than they are doing now and again, some will do worse. That makes stocks risky, but this is precisely what also makes them potentially profitable. The payoff comes from investing well, which is a way of saying investing in stocks that will do better in the future. Preferably, a lot better.

Understand that risk and returns go together. There's no great payoff waiting for you for making great choices for asset types that have no risk.

Why Small

So let's talk about size. From almost any perspective, size is one of the most fundamentally important characteristics of a company. Whether it is for formulating investment strategies, launching mutual

funds or creating market indices, grouping companies by size is the most common way of classifying stocks. And with good reason too.

Smaller companies are inherently different from larger ones. They are riskier because they are not as well-understood as bigger ones. There is relatively little research attention paid to them, so the truth about their prospects is not widely known.

However, this is actually only a small part of the story. There is genuinely a very high degree of uncertainty about smaller companies' future. Many of them will never amount to anything. Many will fail and disappear. Even with the best of intentions, even with the best of research resources, even the best of analysts will make mistakes at a higher rate than they will with larger companies.

That's all part of the game and is never going to change. However, it's precisely because of this uncertainty and this risk, smaller companies that turn out to be winners give outsize returns. The two aspects--high risk and outsize returns--are two sides of the same coin. What we have to do, as analysts and investors, is two different things. ■

The author is CEO of Value Research

Health Insurance Under A Cloud As COVID-

With a spike in cases insurance companies are acting pricey while private hospitals are charging patients for PPE kits

By **Jeevan Prakash, Anagh Pal and Nirmala Konjengbam**

Everybody has seen those social media forwards. A picture of private hospital charges for COVID-19 patients: a list of services, with astronomical figures that could cause a cardiac arrest even in the healthy. That one picture frames the famine of health resources Indian consumers face right now. It's a pincer grip—scarcity at one end, and sheer unaffordability at the other, unfolding just like a famine.

The early reprieve India got during the COVID-19 pandemic now seems a distant story. The very nightmare the lockdown sought to prevent is now upon us. Existing hospital capacities are swamped.

We have an active caseload of 2 lakh-plus, leaping up by 16,000+ every day. The turnover of the sick is so huge that governments, both at the Centre and in states, have inevitably turned to private hospitals. But that has brought in the inevitable

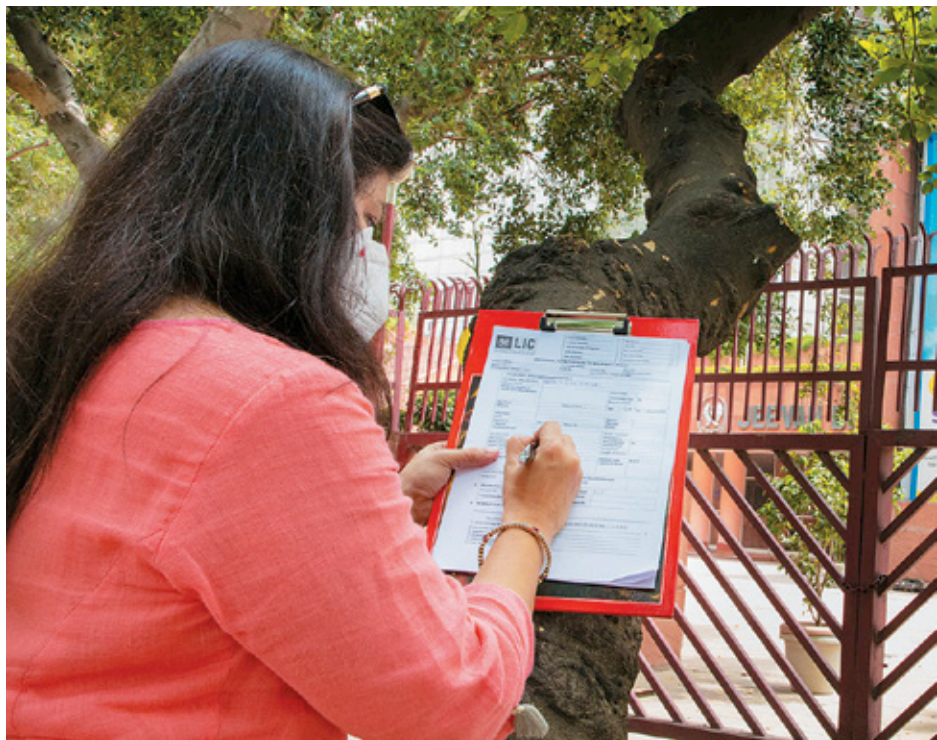


Photo: BHUPINDER SINGH

question: who'll foot the bill?

This is where the insurance drama begins. The biggest bone of contention: insurance companies refusing to reimburse patients. Consumers are understandably angry at private hospitals for seemingly profiteering from a calamity—at a time when India's wallet is thin. Hospitals have their own reasons and sob stories; yet, the government has moved to cap charges in places like Delhi. But why are insurance companies acting pricey? Because a pandemic is an unprecedented situation even for them.

The Insurance Regulatory Authority of India (IRDA) says existing health insurance policies suffice to cover COVID-19 expenses. Alongside, it's encouraging insurers to come out with new COVID-specific policies. But for consumers,

the latter should still be a choice—an older policy should suffice to cover a new disease. But several insurance companies are dragging their feet and looking for ways to cut corners. As it stands, the number of distraught patients—crying about not being reimbursed—can itself become a small graph among India's COVID graphs.

Thing is, a cumulative demand is putting strain even on insurance companies, just like a run on the bank would. Smaller firms are reportedly putting their policies on hold for new clients, fearing huge losses. Most are refusing to reimburse the cost of Personal Protective Equipment (PPE) kits—which typically form a big part of medical bills. Others, as consumer rights activist Bejon Kumar Misra says, “are refusing cashless treatment and asking patients to pay from their own pocket and get reimbursed later.”

JAYAN MATHEWS

Co-Founder and Chief Product Officer, Vital Insurance



Those with smaller sum insured have to pay large amount from their pocket

-19 Rages



Insurers point to the huge, unforeseen, extra burden on them. It's not only PPEs that cost between ₹4,000-8,000 a day—which, as Deepesh Mehta, CEO, Grow Wealth, says “falls under a non-medical expense, and cannot be covered”. Take co-morbidities: it can go undeclared in a policy form, but a virus will unerringly smell it out and strike, creating an unseen mountain of risk for insurers during a pandemic.

The IRDA is scrambling to address this urgent set of challenges. Since existing policy contracts seem to be cracking at the seams, the thrust is on a proposed COVID-specific insurance policy. Here, consumers will have two options, beginning July 15: an indemnity policy and a benefit-based product. The first will cover PPE costs if hospitalised. But the problem of PPE costs stays unresolved: a less-than-

exhaustive list of uncovered items includes an expenditure head for ‘Care & Hygiene products’. That’s what PPEs fall under, even if not specifically mentioned.

Mahipal Singh Bhanot, zonal director, Fortis Hospital, says the private sector too is seeking to find solutions. “By and large, all third party administrators (TPAs) are covering PPEs under the cashless facility,” he says. There are new guidelines here: “one per day for isolation room, 2-3 per day for a single room, 4-5 per day for ICU.” But cashless itself has to become a seamless reality for that to fructify. As Ravi Vishwanath, president-accident & health, HDFC ERGO General Insurance, says, only a regulated COVID-specific package can “help eliminate ambiguity and expedite claim settlements.”

Calculating costs

This looms as a big challenge: there’s no standard. “Average cost is a bit of a misnomer,” explains Bhaskar Nerurkar, head-health claims, Bajaj Allianz General Insurance. “Pan-India, it’s ₹1.2 lakh. But it might be ₹70,000 in a smaller town, ₹4 lakh in Mumbai. Also, some patients go home in 7 days, some stay for 14. Some need isolation, some need ICU, some a ventilator.” But he says

Be Prepared

- Ensure that you have a comprehensive health insurance cover
- Pay your premium on time to ensure continuity of your policy
- Top up your existing policy to increase your cover
- Avoid buying COVID only insurance. However, you can consider it as a top up your existing health insurance plan

ANUP SETH

CRO, Edelweiss
Tokio Life



Discretionary spending has taken a backseat to goal-based financial planning

existing policies cover COVID as any other claim. “Till now, we have received about 500 COVID claims: an average claim size of ₹2 lakh, as high as ₹7.5 lakh in some cases,” he adds. Krishnan Ramachandran, CEO, Max Bupa Health Insurance, too says old policies cover COVID—same claim process, travel history no bar, home treatment covered if the policy has built-in OPD benefits. “We are also covering treatment costs at quarantine centres, including hotels,” he says. Biresh Giri, appointed actuary, head of product development & CRO, Acko General Insurance, says even testing is covered “if you are hospitalised post-testing”. But he adds a nuance: “It’s essential to have an adequate sum assured. From our experience, customers with smaller sum insured bands have to pay a significant amount from their own savings.” Jayan Mathews, Co-Founder and Chief Product Officer at Vital, recommends a cover of ₹5 lakh for small towns, and ₹10 lakh or more for metros.

COVID Plans

Policies specific to COVID-19 will come, as mentioned, in two types: a benefit-based product, which pays an assured sum, or an indemnity-based that reimburses you like any other policy. Mehta explains the basics of the first: an entry age-band from three months to 60 years, but with a fixed premium for all; a sum insured ranging from ₹25,000 to ₹2 lakh, the premium



Costs That Matter

- Treatment in private hospitals: ₹1.65- 7.5 lakh
- Treatment with medication only: ₹2-3 lakh with 10-12 day stay
- ICU stay for critical cases where monitoring is required : ₹5-7 lakh with 10-14 day stay
- Very critical cases where ventilation support is required – ₹12-15 lakh with 20-25 days stay

for the latter costing roughly ₹4,500 per annum; 50 per cent of the sum insured for quarantine, full sum if diagnosed with COVID.

Ramachandran, however, says “it’s always advisable to opt for a comprehensive policy” that covers hospitalisation and also the pre- and post- phases. To that end, he believes “a COVID benefit-based rider with a regular policy will be more beneficial for customers”.

It’s a fact, of course, that a ₹50,000 insured sum won’t help a patient who’s paying up to ₹2.5 lakh for treatment. “A COVID policy only takes care of today’s concern,” says Mathews. It may make sense, he too feels, to add on that benefit to an existing policy.

Who should buy?

We make a case for standard plans with COVID benefits, but who can opt for COVID-specific policies? If you are one of the unfortunate ones who’ve recently lost a job or faced salary cuts, a COVID plan with a relatively lower premium is a good option. For those living in hotspots, there’s no time to waste. If not a high-cost standard plan, at least secure some immediate cover with a COVID plan. Even if health insurance is not your thing, an affordable plan just

for a pandemic is not a bad thought: consider spending a few hundred, especially a family floater plan that secures your loved ones too. For those who can afford it, there never was a time when the need for comprehensive cover was more crystal-clear. At least now, health cannot be seen as an afterthought.

New initiates can learn from experienced consumers who are throwing up interesting patterns of behaviour. Subramanyam Brahmajosyula, head-underwriting & reinsurance, SBI General Insurance, talks of “a reduction in the overall number of claims reported during the lockdown”. Isn’t that a paradox during a pandemic? No. “People are merely choosing to postpone elective treatment.” So the price of health is a constant vigil.

“We are certainly seeing a permanent change in customer behaviour: discretionary spending has taken a backseat to goal-based financial planning,” says Anup Seth, CRO, Edelweiss Tokio Life. Insurers too are functioning amid an unprecedented crisis. As the pandemic set in, their biggest challenge was to ensure the safety of their own employees: providing alternative work arrangements et al. “Another was to overcome set

cybersecurity protocols to enable the safe exchange of confidential information from outside office,” adds Brahmajosyula. Now, many have updated their websites to ensure seamless, user-friendly features for customers. Demand for health insurance, naturally, is rising: the crisis is indeed an opportunity for the industry. “Consumer awareness about having at least a basic cover has gone up significantly; most insurers are receiving enquiries,” says Vishwanath.

During the lockdown, insurers observed “an increase in renewals and fresh policy sales,” he says, and retail health premiums logged a growth of 14 per cent in this phase.

Regulator’s role

The present moment, though, is still one of intense anxiety. And the IRDA, while trying to evolve new norms, is seen as being less than helpful on the core issue of settling claims, especially those related to unique factors like PPEs. Its pronouncements are seen as taking a legalistic view of contracts signed before the pandemic, and thus not protective of policyholders. Factoring in customer feedback is vital at this stage of evolution, says Mishra—that would “give confidence to those buying new policies and thus increase the insurance business, while bringing down insurance costs.” Consultation with policyholders was a regular feature in the years after 1999 when IRDA was set up—that’s been “totally missing for the last 10 years,” he adds. At this point, even the media is finding it hard to get IRDA to engage. Outlook Money contacted, serially, Mathangi Saritha, assistant general manager, communications, then DVS Ramesh, GM, health, and was finally asked to contact Subhash C Khuntia, chairman, IRDA...several calls were made to his office, in vain. A bit of sunlight may not kill the virus but would be ideal in terms of collective response from India. ■

anagh@outlookindia.com

Health Insurance FAQs

Health insurance is a must for everyone. With health costs rising every year, a health emergency can cause a major financial blow in the absence of insurance. However, one needs to be well informed before taking a health insurance policy that suits one's needs. Here are some health insurance FAQs that will address the key issues regarding health insurance.

What is the right age to buy health insurance?

One should buy a health insurance policy as soon as possible, when one is in good health. This is because at a lower age, a health insurance policy is available at a lower premium. Also, most health insurance policies have a waiting period for pre-existing diseases and specific diseases are not covered for usually a period of 2 years.

What do I need to check before selecting a health insurance policy?

There are several things you need to check before taking a health insurance policy. First,



you need to ensure that you have adequate sum assured. Check the waiting period for pre-existing diseases. Check for any sub limits and exclusions under the policy. Check whether any co-pay applicable in the policy. One needs to also have information on the claims settlement ratio of the company.

When can I make a claim?

In a cashless claim the insurer settles all bills with the hospital directly. In case of reimbursement, the policyholder pays for the hospitalisation expenses and can later claim reimbursement. This can be availed at both network and

non-network hospitals.

Should I opt for a COVID-19 product, even though I already have a health insurance policy?

A COVID-19 specific policy will only cover you for the virus when it is prevalent and with certain pre conditions. In case you already have a health insurance policy, this will be sufficient to cover you from any infectious disease, including COVID-19, after an initial waiting period from inception of the policy. Further, a regular insurance policy, also offers a comprehensive cover for medical expenses for major illnesses.

**Mr Ravi Vishwanath,
President – Accident &
Health, HDFC ERGO
General Insurance** says
“A health insurance policy
offers individuals financial
security in case they fall prey
to any ailments listed under
the policy. They also cover
infectious diseases inclusive
of COVID-19 after an initial
waiting period from inception
of the policy. Further, health
insurance policies like HDFC
ERGO General Insurance’s
my:health Suraksha or HDFC
ERGO Health Insurance’s
Optima Restore, will also offer
policyholders a comprehensive
cover for medical expenses
from major illnesses.

Also, customer may opt for HDFC ERGO General Insurance's my:health Suraksha policy, as individuals may buy the policy on installments without EMI. my:health Suraksha also covers mental illnesses under medical expenses cover, home healthcare, road and air ambulance, organ donor expenses, alternative treatments under AYUSH (Ayurveda, Yoga and Naturopathy, Unani, Siddha and Homoeopathy). 

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Environment Funds May See A Surge

The world post COVID-19 is likely to see a paradigm shift. We may soon see sustainability and responsible investment gaining importance in the asset management industry

By **Himali Patel**

First, your worst nightmare came true. Like other global indices, the BSE Sensex plunged. And then, there was some good news. From its low of 25,381 on March 23, 2020, it recovered 60 per cent of its losses over the next three months. Now, there's better news. Worldwide, as also in India, certain funds, dubbed ESG or "sustainable" ones, showed "resilience" during the sell-off triggered by the COVID-19 pandemic. In terms of both assets and

inflows, these funds performed better than the global universe.

Towards the end of March 2020, the assets of sustainable funds, which focus on companies that rank high on Environmental, Social, and Governance (ESG) issues, were down 12 per cent from their all-time high at the close of 2019. According to a May 2020 report by Morningstar, this was lower than the 18 per cent decline for the global universe of all the funds. The sustainable funds "pulled in \$45.6 billion in the first quarter of 2020" compared to "an outflow of \$384.7 billion for the overall fund universe".

In Asia, and specifically in India, the ESGs performed better than in Europe and North America. "Bolstered by new fund launches", their assets in Asia (minus Japan) went up by 21 per cent. The report stated that "Indian (ESG) funds experienced record inflows of \$507 million in first-quarter 2020". Clearly, there is a huge investor interest in sustainable funds. At present, there are seven such funds in India with

combined assets of \$1 billion. Globally, there are almost 3,300 ESGs with assets of almost \$840 billion.

Several reasons can explain the fascination for the sustainable funds. COVID-19 has highlighted issues related to health, safety, environment, and sustainability. "More companies are under scrutiny for decisions that affect their employees, vendors, customers, and other stakeholders. COVID-19 is a litmus test to verify a company's true sustainability, and its commitment to ESG best practices in these difficult times," explains Chirag Mehta, Senior Fund Manager - Alternative Investments, Quantum AMC. In the future, both companies and investors will be obsessed with non-financial parameters, apart from profits, revenues, and other financial figures and ratios. "As we rethink our personal values and priorities, several companies went out of their way to help the society. The theme of ESG or sustainability is becoming not just a luxury but indeed a necessity in the present-day scenario," feels Jinesh Gopani, Head - Equity, Axis AMC. Social responsibility will emerge

CHIRAG MEHTA

Senior Fund Manager
- Alternative
Investments,
Quantum AMC



COVID-19 is a litmus test to verify a company's sustainability and its commitment to ESG



as a priority for companies.

At the governance level, investors will keenly watch how companies engage with specific stakeholders like labour, and evolve meaningful policies to grapple with the new challenges. Ruchit Mehta, Fund Manager-SBI Magnum Equity ESG Fund, SBI Mutual Funds says that shareholders will focus on the risk-mitigation options that managements adopt. “The strengthening of supply chains will be one of them. Import-dependent companies may change their practices, and evolve alternative supply chains,” he adds.

In the post-COVID world, there will be a paradigm shift, as sustainability and responsible investing gain importance. Asset managers will approach investments differently, and investors will demand this change. “Hence, the adoption of ESG is likely to accelerate. It will emerge as a new investment philosophy, even in a nascent market like India,” says Shibani Kurian, Head of Equity Research, Kotak Mahindra AMC. Like growth and momentum stocks, sustainable shares will become part of our lexicon.

Global experience shows that ESG investing generates long-term and competitive returns for both asset managers and investors. This is also true for the not-so-mature Indian market. For example, the two funds of SBI Magnum gave annualised returns of 6.29 per cent and 5.41 per cent over a five-year period. The returns were lower at 2.45 per cent and 1.55 per cent, respectively, over a three-year timeframe. Given the current state of the stock markets, the returns were negative in absolute terms in the past three to six months. Gopani indicates that the more significant aspect of the sustainable funds is that their investment strategies “bring down the risk of disruptions in the companies’ business models and performances due to ESG factors”. The stocks, which they buy are likely

JINESH GOPANI

Head – Equity,
Axis AMC



The theme of ESG or sustainability is becoming not just a luxury but indeed a necessity

to show lower volatility due to possible controversies and occupational mishaps related to environment and governance issues. Hence, the investors and asset managers can be more confident about the price stability of such stocks.

Unlike the other mutual funds, the sustainable ones incorporate ESG analysis in their research and decision-making process. However, despite the single underlying philosophy, the various ESG funds can have different approaches and tactics. According to SBI Magnum’s Mehta, “some funds invest in companies that are broad ESG leaders, and others focus on those with specific positive value-add such as clean energy, healthcare, education, gender equality, and waste management”.

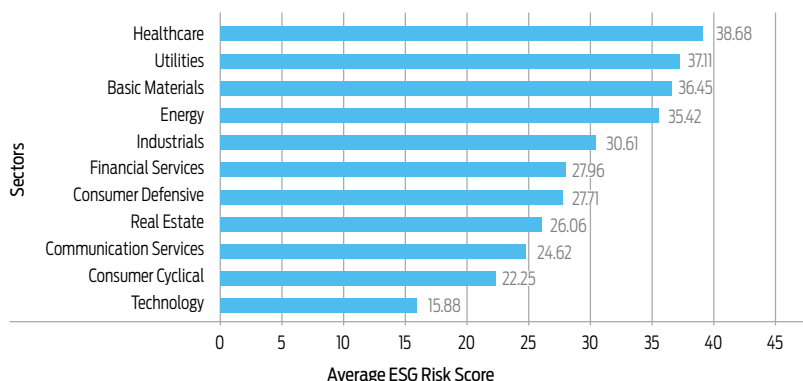
“We weigh stocks based on our proprietary ESG scores, and check tolerance on sector guardrails to arrive at the final weights assigned to each stock in the portfolio,” explains Quantum’s Mehta. He adds that an

ESG Fund Returns (%)

Scheme Name	3 Months	6 Months	3 Years	5 Years	AUM (₹ Cr)
Axis ESG Equity Fund - Direct Plan	1.22	-	-	-	1,690.17
Axis ESG Equity Fund - Regular Plan	0.71	-	-	-	1,690.17
Quantum India ESG Equity Fund - Direct Plan	-1.66	-8.87	-	-	14.15
Quantum India ESG Equity Fund - Regular Plan	-1.88	-9.18	-	-	14.15
SBI Magnum Equity ESG Fund	-7.50	-15.87	1.55	5.41	2,323.67
SBI Magnum Equity ESG Fund - Direct Plan	-7.30	-15.52	2.45	6.29	2,323.67

Source: Value Research; Note: Return as on 9th June 2020, AUM as on 30th April 2020

Average ESG Risk Score



Source: Morningstar & Sustainalytics

ESG score, which is a tally of 150 to 200 parameters of a company's ESG footprint, can be considered a measure of its long-term sustainability. The higher the score, the better it is as an investment option. "A high score translates into steady and sustainable performance," reveals Gopani.

The most favoured stocks in the portfolios of ESG funds are TCS, HDFC, Marico and Shree Cements. "The choice of Marico is because 93 per cent of its packaging material is recyclable and, despite a high promoters' holding of 60 per cent, the business is managed by a professional CEO. In the case of Shree Cements, almost a fourth of its raw material comes from alternative sources, and its plants have zero liquid discharges and are equipped with air-cooled condensers to conserve water," says Quantum's Mehta. The most promising sectors include technology (which has the lowest ESG risk score), followed by consumer cyclical, communication, and real estate. The riskiest ones are healthcare and utilities. "Most healthcare companies have severe or high ESG-related risk. The issues include business ethics, product quality, and safety and access to healthcare," says Harish Toshniwal, Product Manager, Morningstar Indexes. His list of companies with

severe risk comprises Lupin, Cadila Healthcare, Sun Pharma, Piramal Enterprises, GlaxoSmithKline, and Dr Reddy's Lab.

But an ESG score of a company or sector is not a static figure or concept. There are no guarantees that certain stocks or sectors will always remain high on such rankings. Therefore, the fund managers need to nuance and fine-tune their analyses, and include future trends in their calculations. The steps that a company plans to take and the changing state of an industry are crucial factors. Even the past is important. Companies with a past record of high controversies scores should be avoided.

It's not an easy task to be an ESG fund manager. The problem becomes more complex in India because of the paucity of information. For example,

RUCHIT MEHTA

Fund Manager-
SBI Magnum Equity
ESG Fund, SBI
Mutual Funds



Import-dependent companies may change practices and evolve alternative supply chains

as per Sebi's rules, only the top 1,000 listed companies need to furnish Business Responsibility Reports, which highlight their initiatives on ESG issues. There is also a lack of regulatory desire to push companies to reveal additional information. Thus, ESG research becomes difficult, which limits the choices for the fund managers, as also the investors.

By default, the funds fall back on safe strategies. For example, they assiduously shun stocks of companies that derive significant revenues from businesses such as tobacco, liquor, and controversial weapons. In addition, there is the tendency to keep portfolios well-diversified, and not to unduly penalize specific sectors, even those like energy and utilities that rank high on ESG risk scores. The standard practice is to keep the sector-wise exposures in sync with the overall market or the benchmark index.

COVID-19 will lead to several changes. Investors will become sensitive, and gauge companies' efforts to tackle the ESG issues. As they pump money into sustainable funds, the asset managers will be forced to become picky, and discard certain stocks. The managements will pursue sustainable practices. Like CSR, ESG will emerge as a win-win for the stakeholders, who will realise that such strategies lead to higher operational, financial and stock value, and benefit communities and societies. In several ways, the performances of the ESG funds vis-a-vis the global universe in the first quarter of this year prove these trends. As the Morningstar report contends, the "continued inflows" into the sustainable funds "speak of the stickiness of ESG investment." It is evident that investors are increasingly driven by values, even non-financial ones. Hence, they are willing to invest in stocks that rank high on ESG for a longer term and, most importantly, they are "willing to ride out periods of bad performance."

himati@outlookindia.com



Serving Stakeholders A Top Priority Now

Stakeholders are extremely important and maintaining a balanced approach to boost their confidence will help firms bounce back from the crisis.

Arvind Gupta, Partner and Head – Management Consulting, KPMG in India explains how firms need to establish the new normal and communicate this approach to their stakeholders, during an interview with **Himali Patel**.

➔ The pandemic has caused a serious business slowdown. How are the corporates trying to reassure stakeholders (investors, creditors, employees) during decision-making?

The aftermath of COVID-19 outbreak is going to reverberate through the economy for a long time, pushing us to transform and innovate the way we operate. We are seeing firms establishing incident management teams, redoing business continuity plans and charting stakeholder communication strategically to deal with all unseen and unexpected challenges.

Organisations are attempting to respond on multiple fronts simultaneously. They are looking at safeguarding their workforce by promoting employee benefits like remote working, increased health cover and developing employee risk mitigation strategies. While doing so, they are also looking at opportunities to preserve cash for operational continuity, re-thinking how they can manage their regular activities and identify opportunities for realigning expenses in this dynamic environment.

Companies are re-analysing their strengths so that they can make a positive impact on shareholders. We are re-doing our offerings to better match the market needs, making our stakeholders hopeful and confident.

Firms are sharing execution plans with stakeholders for inputs, fostering collective decision and sense of belonging.

➔ Why do you think stakeholders matter now more than ever?

Many large organisations have stepped up efforts to provide more social benefits, they are extending sick leaves to employees, longer credit period to its vendors and forgoing downsizing.

With such uncertainty, businesses know that if they

take care of their stakeholders in their decision-making, they are likely to be more resilient over the time.

➔ What do stakeholders go through when their views are not considered?

All stakeholders expect their needs to be taken into account as companies strategize to meet new challenges. By not meeting these basic expectations, companies would see fear, confusion and anxiety across the value chain. These may include investors who doubt the financial viability of their investment, or employees who may be facing job and financial insecurity, or the creditors who may doubt the company's worthiness. This will have a ripple effect negativity affecting both the brand and reputation. At present, the hospitality and the airline companies are trying to ensure safety of customers by maintaining high hygiene standards and make both customers and employees feel comfortable about being associated with them.

➔ Which principles would contribute to a more sustainable and prosperous future for the stakeholders?

Firms need to establish the new normal and accordingly change the way they operate and communicate with stakeholders to give them confidence.

1. Companies with a robust business continuity plan and well-laid policies to deal with emergencies are better placed to cope with downturns.
2. Openness in sharing the financial situation of the organisation would foster security amongst employees, creditors, partners and investors.
3. Businesses need to find means to help employees deal with increased levels of anxiety and monotonous work-life through innovative ways of engagement, active listening, and providing opportunity to upskill and reskill.
4. They also need to recognise and weed out short-term crisis that may victimise employees or investors, by using innovative methods for stability. ■

himali@outlookindia.com

Firms are re-analysing their strengths for a positive impact



Fintechs Strike Gold As Digital Life Grows

There is a sudden surge of demand for using these app-based financial platforms post pandemic

By **Aparajita Gupta**

With the coronavirus-induced lockdown getting prolonged, the fintech platforms are reaping a harvest with netizens thronging various sites for financial solutions. Many fintech platforms have even seen its traffic getting doubled during the lockdown period without any marketing spent.

Apart from digital payments companies who witnessed a boom during the demonetisation and are now seeing good traction on their platforms, other fintech platforms are also witnessing sharp surge in their

businesses. “We have seen no fall in our user base during the lockdown. In fact, the transactions on our platforms have grown by 2X. Before

NITHIN KAMATH

Founder & CEO,
Zerodha



Witnessed a surge in account opening to the extent of over 300 per cent post lockdown

the lockdown we were growing 20 per cent month-on-month. Since the last three months we have been growing by 30 per cent month-on-month. We crossed 6 million users in April,” says Harsh Jain, Co-founder and Chief Operating Officer, Groww.

As an investment platform, Groww currently offers direct mutual funds and recently launched stock investing. The average age of investors on Groww is 28 years.

Evidently, the online traction for these platforms have gone up thanks to the young population.

Bala Parthasarathy, CEO & Co-founder, MoneyTap says, “We are witnessing an impressive surge in



ARCHIT GUPTA

Founder and CEO,
ClearTax



Lockdown has given us an opportunity to double up on new products and features

airlines, tourism, hospitality, hotels, entertainment, e-commerce (non-essentials) and restaurants, among other sectors.

However, there are also a few areas that are seeing an uptick in digital payments by way of increased adoption during the lockdown. These include online grocery stores, online pharmacies, OTT players (telecom and media), EdTechs, online gaming, recharges and utility/bill payments, the study states.

Digital payment volumes are also receiving a boost through the Government, which has pledged monetary assistance to the poor via direct transfers to bank accounts.

The finance minister and the CEO of the National Payments Corporation of India have also urged people to increase the use of digital payments in order to make payments contactless.

“Digital payments, once a convenience, have become a necessity in these times. With a majority of the sectors that contribute to digital payments still in a state of flux, it is still too early to ascertain the long-term impact of COVID-19 on digital payments,” the study added.

Even Parthasarathy’s views are absolutely in sync with the study.

“Our existing customers are borrowing from their line of credit, but this borrowing is at a reduced level as expenses have gone down in the lockdown. Spends on luxury items and travel have become

negligible at the moment. However, we are witnessing an uptick in other categories like education and medical loans. Our customers are also taking small-ticket loans to meet their essential everyday expenses,” he says.

Even tax solutions provider ClearTax is witnessing higher traction during this time of lockdown.

But will it be able to sustain this traction once lockdown is over?

“Yes. We adapt our product pipeline based on continuous customer feedback. We were the first few to offer GST 2.0 and E-Invoicing solutions and the lockdown gave us an opportunity to double on new products and features on our existing tax compliance suite which we will be rolling out in the next few months,” says Archit Gupta, Founder, and CEO, ClearTax.

Again, bulk of the tax payers are in the 25-40 year age group.

Even, Nithin Kamath, Founder & CEO, Zerodha says the lockdown had a positive effect on the business. “We have witnessed a surge in account opening to the extent of over 300 per cent post lockdown in the last three months. This is mainly due to the fact that during the lockdown people are working from home and getting some time to invest in the markets.”

Zerodha offers investments in stocks, mutual funds, and bonds, trading in equity, equity derivatives, currency derivatives, and commodity derivatives on its platform.

“Our client user base was around 2 million before the lockdown phase and now crossed more than 2.5 million clients. Overall we have registered an increase of more than 27 per cent in our new client additions,” adds Kamath.

Though COVID-19 had a negative impact on most of the sectors, a few sectors could leverage it well. Undoubtedly, fintech will reap more benefit this year as long as the fear of the disease does not subside fully. ■

aparajita@outlookindia.com

our organic lending activity and the number of daily enquiries. Just like demonetisation provided a massive impetus to digital payments, as we navigate through the post-COVID world of lockdowns, digital lending has come to the centerstage.”

MoneyTap provides customers with a revolving credit line, from which they can borrow money once or twice, or as many times as they like. Basically, one gets a one-time approval for multiple disbursements. It has 90 per cent repeat customers on the app. It provides credit of up to ₹5 lakh at interest rates starting 13 per cent per annum.

“We have seen our organic website traffic almost double than what it was before the lockdown. And all this with zero marketing spend,” he adds.

According to a recent study conducted by PricewaterhouseCoopers digital payment volume declines are seen in

MFs Confident After RBI's Fund Offer

Have measures taken by Indian regulators really helped boost the inflow of debt fund in MF industry?

By **Himali Patel**

The Government has come out strongly with a huge fund meant to support the Mutual Fund (MF) industry after the recent collapse of a few funds including the major Franklin Templeton (FT) Mutual Fund.

But only ₹2,430 crore out of the ₹50,000 crore allotted for the purpose was utilized till June 11, which is more than two months out of the 90-day period allowed by the government. The low offtake could mean that most major players in the industry feel confident about their future.

An increased volatility in capital markets has led to liquidity strains in the Mutual Fund (MF) industry, forcing companies like Franklin Templeton (FT) Mutual Fund to wind up six of its credit-focused debt schemes on April 23, 2020. This was further intensified by the redemption pressure followed by a contagious effect on the overall industry.

In a move to ease liquidity pressure on MFs, the Reserve Bank of India (RBI) has opened a Special Liquidity Facility (SLF) for mutual funds worth ₹50,000 crore on April 27, 2020. The scheme was made available from April 27 till May 11, 2020 or up to utilisation of the allocated amount, whichever was early. This measure by the apex bank has provided necessary confidence to the investment community, when the MF industry was affected by continuous redemptions.

"The very provision of the facility has provided enough confidence to stem redemptions. As on June 11, 2020, only ₹2,430 crore has been availed. In 2008 and 2013, similar liquidity supports were provided



by the central bank that saw a very limited utilisation yet proved to be a confidence boosting measure," recalls Raveendra Balivada- Head of Investment Advisers, HDFC Securities.

RBI has constantly provided relief to many other participants in the capital market, which has indirectly benefited the MF industry with efforts like provision of moratorium, liquidity infusion in apex financial bodies like National Bank for

Agriculture and Rural Development (NABARD), Small Industrial Development Bank of India (SIDBI) and National Housing Bank (NHB)

"By giving a boost to the available funding, we believe RBI has given comfort to mutual fund managers regarding their ability to meet funding requirements in case of redemptions. Further measures like Targeted Long-Term Repo Operations (TLTROs) have provided the much-needed market liquidity," says Mayank Prakash, Fund Manager - Fixed Income, BNP Paribas Mutual Fund.

According to Association of Mutual Funds in India (AMFI), Assets Under Management (AUM) of Indian MF industry has risen 2.6 per cent sequentially at ₹24.5 lakh crore in May 2020, owing to growth in liquid and arbitrage funds. However, compared to May 2019, the AUM slipped by 5.4 per cent in May 2020, translating to an asset base reduction of ₹1.4 lakh crore. In May 2020, the largest proportion

RAVEENDRA BALIVADA

Head of Investment Advisers, HDFC Securities



The facility has provided enough confidence to stem redemption

of funds of debt AUMs invested in corporate debt papers were worth ₹3.87 lakh crore. This segment includes floating rate bonds and non-convertible debentures. The debt AUMs deployed their funds and PSU debt funds increased to ₹2.04 lakh crore from ₹1.96 lakh crore, while the percentage share decreased to 13.2 per cent in May 2020.

The lack of access to fresh funding has also led to yield spread widening in corporate bonds, thereby indirectly impacting debt funds. Within the debt MF universe, credit funds inherently carry a high risk as they typically invest in lower credit quality papers, where the probability of default stands higher as compared to a sovereign/AAA/AA+ issue. Credit risk funds are debt funds that have at least 65 per cent investments in less than AA-rated paper. "Investors seem to be moving into debt funds with caution and money is flowing incrementally into categories where underlying credit is largely focused on banks/ PSU / PFI and AAA corporates with a good parentage and

MAYANK PRAKASH

Fund Manager - Fixed Income, BNP Paribas Mutual Fund



Targeted long-term repo operations have provided the market liquidity

a proven track record. Thus, the flow has been seen in banking and PSU debt funds/ low duration/ short-term funds with the underlying exposures," explains Prakash.

The AMFI data indicates that credit risk fund has declined 45 per cent in AUM over the last three months. As on March 31, 2020 the AUM was ₹55,381 crore and declined massively by 36 per cent Month-on-Month (MoM) to ₹35,222 crore as on April, 30, 2020. It saw a further erosion by 13 per cent MoM to ₹30,469 crore as on May 31, 2020.

As per experts it is interesting to note that over the same period of time there has been a 40 per cent growth in AUM of liquid funds from ₹3,34,725 crore as on March 31, 2020 to ₹4,69,086 crore as on May 31, 2020.

Explains Balivada, "Although, majority of the AUM growth in the liquid fund at 21 per cent MoM from March 31 to April 30, 2020 can be attributed to the inflow from corporates and financial Institutions, the AUM growth at 16 per cent MoM from April 30 to May 31, 2020 clearly indicates that investors have become risk averse, redeeming from credit risk funds and deploying in safer products like liquid fund."

They typically redeem at the end of the financial year to show cash in their books and deploy it again in the beginning of the new financial year.

The regulators - RBI, Sebi and AMFI - have been constantly working with all stakeholders to build confidence and clarity amid the chaos and panic. They have been behind the ideation of many revival measures for the MF industry. It has helped boost confidence and stopped panic redemptions. "Regulatory initiatives have been good confidence-building measures and have indeed helped the MF industry ensure normal functioning of the markets. Credit risk concerns have ebbed, following regulatory support, even as redemptions have come down," says N S Venkatesh, Chief Executive, AMFI.

The pandemic has significantly impaired many sectors, which could witness credit pressure this year because of the slowdown in public spending and stretched working capital cycles. Further, banks remain cautious in lending corporates and SMEs and this will impact the liquidity of low-ranked corporates. Next one year is going to be very crucial for the rating actions and also from RBI's stance on provisioning since a sharp slowdown can trigger a fresh set of defaults. ■

himali@outlookindia.com

Policy Initiatives By RBI

Policy Initiatives	Time Period	Amount (₹ Trillion)
Reduction in policy rate (75bps + 40bps)	March & May 2020	-
TLTROs	April, 2020	1.5
CRR cut by 100bps	March, 2020	1.37
Relaxation over LCR & CRR		
MSF - O/N borrowing raised by 100bps	March, 2020	1.37
SLF-MF	April, 2020	0.5
Relief package	May, 2020	
For NBFCs/HFCs/MFIs		0.75
For MSMEs		3.7
For DISCOMs		0.9
Special Refinance facility to FIs		0.5
Increase limits to 30% from 25% under LEF	May, 2020	-

Source : RBI ; Note : TLTROs (Targeted Long-Term Repo Operations), CRR (Cash Reserve Ratio), Liquidity Coverage Ratio (LCR), Marginal Standing Facility (MSF), Special Liquidity Facility (SLF) for Mutual Funds (MF)



Crisis Opens New Doors For SIP Investors

The correction in markets is helping retail investors accumulate more number of units of mutual funds and build a big corpus for themselves through the SIP route, N S Venkatesh, Chief Executive of the Association of Mutual Funds in India (AMFI), told Himali Patel in an interview. Credit risk concerns in the fund industry has largely ebbed because of regulatory support and upcoming redemptions, he said.

➔ What is your assessment of the economy and market after the government's stimulus measures?

Indian equity markets have seen harsh corrections due to the pandemic.

However, our government has risen to the occasion. Atmanirbhar plan as a dynamic mantra, and the ₹20 lakh crore package will help the economy resurrect in the coming quarters.

As far as Mutual Fund (MF) industry is concerned, it is heartening to note that retail investors continue to demonstrate mature investment behaviour. They continue to repose confidence in equity mutual funds, as reflected by robust monthly Systematic Investment Plan (SIP) contribution. Even the debt side has seen a steady rise in the net flows as investors are shifting towards high-quality AAA-rated debt in view of the trend of reducing interest rates.

Credit risk concerns have ebbed, following regulatory support, and with redemptions coming down, we could see investors allocating higher quantum of savings to schemes having high-quality debt paper.

➔ What is your view on SIP flows? Will they continue to breach ₹8,000 crore threshold in the given scenario?

Allow me to respond a bit differently. Equity markets have been at their peak of uncertainty and volatility and reigned supreme in the last 18 to 24 months. Against this backdrop, it is important to observe the behaviour of retail investors. SIP contributions have risen and now have been breaching the threshold of ₹8,000 crore plus. Even in the last three months of COVID-impacted economy, SIP contributions continue to be robust. Investors have realised the importance of staying invested, not getting distracted by these events

and keeping their long-term goals as the objective to decide on their investments.

If Investors stay firm, they stand to gain from the ongoing market developments and build a sizeable corpus that can help them achieve their financial life goals. Let us not overlook the fact that each of these crisis events leading to market correction, is helping investors accumulate more number of units at lower net asset value, through the SIP route. These investments will make a big difference to the investor corpus when the market rebounds in view of the inherent strength of the economy.

➔ What should investors opt for between equity and debt MFs? Will you reassure investors to continue investing in equity funds even though the bulk of them have hit the bottom in terms of NAV?

Debt schemes serve as the best investment vehicle if your investment horizon is between six months and three years. Risk averse investors can opt for debt schemes, which have high-quality AAA paper, like corporate bond fund, or banking and Public Sector Undertakings (PSU fund), savings fund. In fact, MF Industry is offering SIPs into high-quality debt funds too.

Investors should opt for equity funds if their investment horizon is for a very long term. The best approach would be to invest periodically through goal-oriented SIPs into chosen equity schemes.

➔ AMFI BCG report last year had set a target of achieving ₹100 lakh crore AUM and 10 crore investors. Has that goal post changed in the given scenario?

The goal post has certainly not changed. At worst, the MF Industry may now take a bit more time to arrive at the goal post. However, increasing awareness of mutual funds coupled with ease of onboarding newer Investors, thanks to increasing adoption of technology, will hopefully help the industry achieve that target, earlier than envisaged. ■

Retail investors continue to repose confidence in equity MFs

himali@outlookindia.com

Why it makes sense to invest through SIP?

The world is currently navigating a challenging environment, unprecedented in its scope and impact. The near-term trajectory of the market looks uncertain.

However, it is important to note that over the long-term, the economy will recover and the stock markets will generate returns. There have been instances in the past like the Balance of Payments crisis in 1991 or the Global Financial Crisis of 2008 when markets corrected in the range of 20% to 60%. In case of each of these instances, markets eventually recovered to not only recoup all the losses witnessed during the crisis but also to generate significant gains. Having said that, the interim periods are usually checkered with extreme volatility, making it difficult to make optimal investment decisions.

In such an environment, how can you best take advantage of future growth prospects to generate compelling long-term returns?

The simple answer to that is, “Invest through a Systematic Investment Plan (SIP) and continue with your existing SIP investments”.

SIPs as vehicles of long-term growth – SIPs are simply investment vehicles that inculcate discipline in the investment process and make it easy for investors to participate in the volatile equity markets. Through an SIP, you can invest a fixed amount of money periodically in the equity markets. SIPs give you a great deal of flexibility in terms of how much you want to invest (the investment amount can be as low as INR 100) and when you want to invest (fortnightly, monthly, quarterly, etc.). By consistently participating in



Vinay Agrawal
CEO, Angel Broking Ltd

the equity markets through an SIP you can smoothen volatility, reap the long-term benefits of equity investing and harness the power of compounding. Compounding is a mathematical process that ensures that the principal invested and the returns generated on that principal are reinvested to generate further returns. Over the long-term, compounding can exponentially increase your earnings from an investment.

Benefit from rupee-cost averaging – due to the inherent volatility of equity markets, stock prices are bound to fluctuate sharply in the short-term and change over the long-term. By investing all your money at a particular price-point you are exposing yourself to heightened volatility. However, if you were to participate in the market at all price levels, then you would be able to mitigate portfolio volatility and enhance long-term returns. Since an SIP entails investing a fixed amount of money at fixed intervals, it ensures that you purchase fewer units of an investment when prices rise and more units of an investment

when prices fall. As a result, you are able to lower the average cost of your investment, thereby reducing volatility and improving the probability of generating higher long-term returns.

No need to try and time the markets – Most equity market participants try to time the markets in an attempt to ‘buy low and sell high’. However, anyone who has ever tried to do this will tell you that it is a redundant exercise. It is near impossible to accurately predict the market tops and bottoms out. Thus, it makes sense that instead of trying to time your entry and exit from the markets, you focus on consistently participating in the markets to leverage intermittent opportunities. Through fixed, periodic investments an SIP will ensure that you are able to participate at market tops, at market bottoms and at all times in-between.

Reduce the impact of behavioural biases – greed and fear influence most investment choices - the greed to make more money and the fear of losing money. It is these emotions that can often influence your investment decisions and hinder your ability to make wise choices. An SIP by its very nature inculcates discipline in the investment process and helps you overcome behavioural biases that might come in the way of your investment decisions.

The benefits of SIP are fairly well known. However, when faced with highly volatile market conditions and an uncertain future, it is easy to forget these advantages and succumb to the fear in the environment. Do remember that SIPs are vehicles of long-term growth that can help you navigate the volatile investment landscape to generate robust long-term returns. ■

NRI's May Drive India's Realty Revival

Subdued property rates, falling rupee and abysmally low interest rates are making realty a lucrative choice for NRIs

By **Vishav**

India's already ailing real estate sector faced a snowball effect post pandemic when the global economy was struck by a crisis like never before. Private Equity (PE) investments in the real estate sector crashed by 93 per cent to around ₹1,800 crore during the first five months of 2020, down from about ₹25,000 crore in the corresponding period last year, mainly due to the nation-wide lockdown imposed since mid March.

However, there is a consensus that some new pockets of opportunities may actually help the crisis-ridden sector bounce back and emerge stronger.

According to Manju Yagnik, Vice Chairperson, Nahar Group and Vice President, NAREDCO, NRI investment is one such potential area, with increased uncertainty of jobs, visa related issues as expats.

Shveta Jain, Managing Director - Residential Services, Savills India, agrees and adds that NRIs had traditionally been buying properties in India. The sector sees highest remittances from the diaspora. Sadly, there has been a decline in NRI investment post 2014 when the residential market went through a slump.

"In the wake of the current crisis, we expect to see a heightened NRI activity driven by first-time homebuyers in the age group of 27 to 37. These purchases will be seen as a hedge and safeguard against crises. However, the rider to these purchases will be of right value and proven track record of the developers," Jain says.

Yagnik adds that time couldn't have been more beneficial for them to invest with a fall in Indian rupee, subdued property prices, over a decade low interest rates, reduced stamp duty in most states

with unchanged ready reckoner rates in many markets including Maharashtra for FY21.

There have been a considerable number of inquiries from NRIs when it comes to investing in real estate, especially from the Gulf countries followed by the United States and other European nations. Moreover, funding is also easily available to NRIs from banks and housing finance companies.

Promising Pockets

- In Bangalore micro markets like Kanakapura Road, ORR, Devanahalli, Sarjapur Road
- In NCR Sector 150 Noida, Noida City Center, Dwarka Expressway (Gurgaon)
- In Pune Hinjewadi, Wagholi, Baner, Wakad

Source: 360Realtors

Additionally, with stamp duty now being sold online it becomes an added advantage.

“Owning a home in their own country is a matter of great emotional and psychological fulfilment for NRIs. They mostly prefer to invest in independent villas, luxury, semi-luxury housing in an integrated township, which offers world class amenities, excellent infrastructure support, good construction quality and sustainable environmental values. They seek safety, security, clean and green environment and a community set-up, which they have been used to while living abroad,” Yagnik explains.

According to a whitepaper released by 360Realtors, at the onset of FY21, a total of \$13.1 billion was expected to enter the Indian housing market from NRI quarters. While this number may see a revision due to COVID-19, it cannot be denied that these are also one of the most opportune times with home prices seeing a huge dip. Also, the

MANJU YAGNIK

Vice Chairperson,
Nahar Group and Vice
President, NAREDCO



Owning home in India is a matter of emotional and psychological fulfilment for NRIs

crisis emerging out of coronavirus outbreak may not affect NRIs as much as it affects domestic buyers.

“Since NRIs stay far away, lack of physical visits or inspection does not make much of a difference. An effective digital view of the project can be equally helpful. Developers are also investing heavily in digital/online medium to help buyers learn more about properties and make informed decisions,” says the report by 360Realtors.

The situation offers a significant

advantage to NRIs with a 10 per cent dip in the value of rupee over the last 12 months coupled with attractive payment plans such as 10:90, 20:80, leasing assistance, assured rentals and so on. According to Ankit Kansal, MD and Co-Founder, 360Realtors, to realise this potential and overcome the crisis, Indian real estate needs to alter its existing business model and aggressively work towards digital transformation and build a comprehensive infrastructure that can facilitate seamless customer life cycle management over the web world.

“The way forward will be to step up the digital game with focus on a more immersive and experience-based technology platforms that can foster stronger customer engagement and personalisation



ANKIT KANSALMD and Co-Founder,
360Realtors

Realty sector needs to alter its business model and work towards digital transformation

along with offering transparency to facilitate real estate sales.

For instance, in a post COVID world, virtual events will proliferate. However, just taking the event online would not serve the purpose. Those events need to be designed and implemented to offer real value to the customers," he explains.

It's not just the NRIs that hold hope for the sector. Some events which occurred as corollary to the COVID crisis have also opened up opportunities in the form of challenges. For instance,

reverse migration may have had a detrimental impact on the real estate in metro cities but tier-II and tier-III cities are expected to see a surge in demand. Developers may need to change their approach. Similarly, acceptance of work from home culture, if extended beyond the times of crisis, may lead to demand for homes in suburban areas due to attractive prices and other benefits.

Savills India's Jain feels the increasing trend of work from home could potentially induce residential buyers to opt for bigger and less expensive homes away from the city centre. She adds that this trend, however, may not essentially be fuelled by work from home alone, but would primarily be led by people looking for larger homes with superior amenities.

Kansal too agrees and adds that post-COVID, demand for peripheral areas will increase because in a work-from-home situation, people would need larger space at an affordable price. If that were to happen, they would

SHVETA JAINManaging Director -
Residential Services,
Savills India

Expect a heightened NRI activity by first-time buyers in the age group of 27-37 years

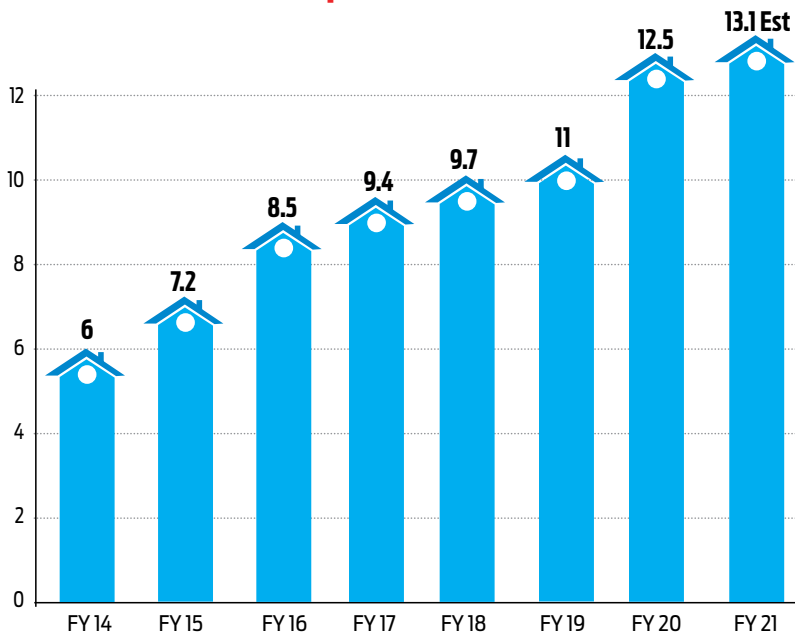
avoid congested places and look for larger spaces and open areas and migration will take place from central business districts.

When it comes to tier-II and-III cities, they have always promised being end-user markets. Cities like Lucknow, Chandigarh, Ludhiana, Faridabad and Allahabad, among others, have always found takers and now the demand has been revitalised with reverse migration, investment from Gulf countries, historic low level of loan rates and accelerated need for self-owned homes, says Mohit Goel, CEO, Omaxe.

"The recent rise in demand and renewal of interest of investors, developers and homebuyers owing to the pandemic is a welcome shift. The pandemic has taught us that creating several economic centres is what the Indian economy needs right now. The real estate and infrastructure sector is driving this shift and the coming times will see a lot of commercial activities and jobs in these cities," he explains.

The need of the hour is to change the conventional ways of working and innovate to cater to the new demands of the potential homebuyers. The good news is that most studies concur that a large majority of buyers are still planning to go ahead with their investment, even if they have deferred it for the time being. 

NRI Investments in \$Billion



Source : 360 Realtors Research

vishav@outlookindia.com

Avoid these costly mistakes in life!



Vatsal Shah

Head - Wealth Management,
Sushil Financial Services Ltd

Biases can cost you a lot! Almost everyone takes wrong decisions because of certain biases that are set in their mind. Much has been spoken/discussed about Behavioral biases and how it impacts our decision making. However, just a fraction of people possess the rightful knowledge to understand these biases.

Why do people have biases?

It is because we are humans. That's how brains are developed to think. There are certain patterns for which a human brain is naturally hard wired to think. 'Once burnt twice shy' is the simplest phrase that can explain why we all suffer from a powerful bias known as the **Recency Bias**.

Just after the attack on World Trade Centre, there was a sudden drop in people taking flights. Similar trend played out in hotel industry post the tragic attacks by terrorists in Mumbai. Ironically, the best time to take a flight or visit a hotel was after such attacks given that security is stronger. These examples indicate that a recent negative impact can

base a lot of weight on our next set of actions. We tend to jump to conclusion without properly evaluating the options available.

1 First mistake, falling prey to **Recency Bias** – is to sell an investment at a loss and park the proceeds in a safer option. This is done solely out of fear of making more loss. I have seen this several times, over the years. This bias is so strong that sometimes advisors too tilt naturally towards taking such decisions as clients are easily convinced.

How to address this: Evaluate each situation in isolation. Have enough data points to make sure you are considering all the scenarios and then do a probabilistic study. Put down the various outcomes and then co-relate with your most recent experience.

Recently we have seen markets performing mainly on account of the run-up seen in growth stocks. Value as a theme has been a laggard. Expecting this trend to continue forever may not work as money would definitely move to value pockets over a period.

2 Second one is the **Anchoring effect** – We experience this all the time, particularly when dealing with stock markets. It is said that once we buy a stock at a certain price, the investor by no means can sell the stock below that price. This is because our mind is anchored to a particular price and deciding to sell at a lower price becomes difficult. Owing to this the investor tends to keep waiting for the stock to regain its price and consequently may end up with huge losses.

How to address it: Think forward and don't be hooked to previous values/ numbers. Think objectively

about current scenario and value your investments based on that.

3 Confirmation Bias – Considered as one of the most deadly biases. As Rolf Dobeli expresses in his book – The Art of Thinking Clearly – Confirmation bias is the mother of all misconceptions. Here, an investor tends to look for only those information/ data that confirm his/her theories. In other words, we end up discounting or filter out information that doesn't confirm with our views.

If we have a negative view on markets, we will always refer to the negative news or wait for markets to correct further. Likewise on the upside, we become a blind believer of unlimited upside and always feel this time it's different.

How to address it: The best approach is to write down your views or theories about investing, business, team building etc. and then find evidence in actual cases which are **against your views**.

4 If you find yourself more upset with losses than the gains you make, you are exhibiting **Loss Aversion**. This bias will lead to selling your winners quickly while holding on to your losers. Recently, this bias was visible in the credit markets when one of the Asset Management Company closed down their credit related funds. Immediately, investors seeking safe returns exited en masse. This episode is a clear case of loss aversion combined with recency bias which ultimately leads to irrational behaviour.

How to address it: Don't get bogged down by losses of individual portfolios. Instead, look at overall positions of your entire basket of wealth and then analyze the returns.

Keeping away from these four biases will surely help you avoid costly mistakes. Happy investing! ■

Strong Execution And A Healthy Order

KEC offers a healthy order book amid lockdown

By Himali Patel

The efficient working capital management and execution ramp-up are two components that have aided KEC International (KEC) despite the economic slowdown. This RPG Group flagship company has showcased a strong execution capability and a healthy new order inflow despite the challenges in Fourth Quarter (Q4) of Financial Year (FY) 2020. The company is a global Engineering, Procurement and Construction (EPC) major and is executing multiple projects across over 30 countries. It delivers projects in key sectors like Power Transmission & Distribution (T&D), Railways, Civil, Solar, Smart Infra and Cables. KEC has eight manufacturing facilities across India, Dubai, Brazil and Mexico.

For FY2020, revenues stood at ₹11,965 crore with a growth of 9 per cent Year-on-Year (Y-o-Y) on the back of the growth in Railways and acquired SAE Tower. For Q4 FY2020, the sales grew in SAE Tower (+39 per cent Y-o-Y) and Railways (+36 per cent Y-o-Y) division while domestic T&D execution dropped by 17 per cent Y-o-Y on back of COVID-19 disruptions. On the operating front, the Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) rose 7 per cent in FY 2020. The Profit After Tax (PAT) saw a growth of 14 per cent Y-o-Y at ₹566 crore in FY2020. "We forecast revenue/ EBITDA/adj. PAT CAGR of 6 per cent / 4 per cent/ 2 per cent over FY20-22E, taking into account the order book position and the need to keep working capital under

control. Strong promoter parentage and focus on the balance sheet should help KEC emerge stronger post pandemic versus peers," explains an analyst at Motilal Oswal Financial Services.

The company's order book stood at ₹24,000 as on March 2020, with 1 per cent growth Y-o-Y. On the order inflow front, its total order intake for FY20 stood at ₹11,331 crore, down by 19.5 per cent. "Overall performance has been satisfactory across segments for FY20 barring order inflows, which were impacted by economic slowdown. Efficient working capital management and execution ramp-up, despite challenges, should comfortably ensure 5.1 per cent revenue Compounded Annual Growth Rate (CAGR) in FY20-22 estimate," says an analyst at ICICI Direct.

As on June 22, 2020, the company's share price stood at ₹244.1 and has delivered a negative return of 23 per cent. However, KEC's debt level remained in line with the FY20 guidance of ₹2,200 crore. "According to management, the working capital position remains manageable with no stress, despite collecting loss of about ₹300 to 400 crore, which could have further reduced debt," says an analyst at Chola Securities. As per experts the ordering would pick up pace from the second quarter of FY21 as the company derives majority of orders from Indian Railways, Metro Corp, and multilateral banks. This bodes well for the investors looking at the long-term horizon. ■

KEC International

➔ **CMP: 244.1**

➔ **PE: 11.50**

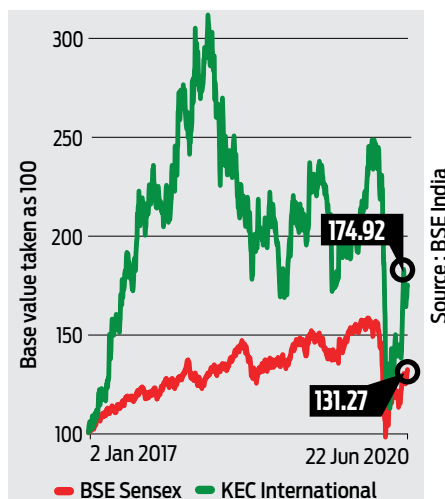
*As on 22nd June, 2020

Why Buy

- Consistent profitability growth despite challenges.
- Healthy order inflows and efficient working capital management.

Watch Out For

- Rising competition and project execution delay may dent margins.



Financials

Net sales (₹ crore)		PAT (₹ crore)	
FY20	11965.37	FY20	565.52
FY19	11022.00	FY19	495.77
FY18	10106.02	FY18	460.42
OP (₹ crore)		EPS (₹)	
FY20	1245.45	FY20	22.00
FY19	1269.84	FY19	19.28
FY18	1117.86	FY18	17.91

OP: Operating Profit; PAT: Profit After Tax; EPS: Earnings Per Share; Source: Ace Equity

Going Strong On Tractor Business

Brokerages remain positive on long-term prospects

A better product mix, benign commodity prices and other cost efficiencies have led Escorts to report a robust Quarter Four (Q4) Financial Year (FY) 2020 performance. Being one of the leading players in tractor industry, Escorts has strong presence in the north and western market, with an overall domestic market share of 11.6 per cent for the year ended March 2020. The company is mainly into manufacturing of equipment for agriculture, infrastructure and Railways for domestic and international market with 1000 plus active dealer network. Escorts has put up an impressive show for the first quarter June, by posting a Profit After Tax (PAT) growth of 10 per cent Year-on-Year (Y-o-Y) in Q4 FY20.

Export volumes rose 21.9 per cent on back of new product introduction and penetration in new markets. The consolidated revenue stood at ₹1,385 crore, a decline of 15 per cent Y-o-Y due to the impact of lockdown in Q4 FY20. Over the last five years the company's revenue has grown at a Compounded Annual Growth Rate (CAGR) of 11 per cent over FY2015-20. Its revenues share by segment in Q4 FY2020 for Agri Machinery (EAM) segment was 77 per cent, Construction Equipment (ECE) segment (15 per cent) and Railway Equipment Division (RED) was 8 per cent.

Experts say Q4 reflects only partial impact of the current pandemic and for the coming quarters, one does not foresee any significant damage. "The company

primarily caters to rural markets, with over 75 per cent sales coming from tractor. The pandemic spread in rural areas so far has been arrested and the process of gradual lifting of lockdown is on. Given the signs of revival in tractor demand, we expect Escorts to be the prime beneficiary with its leadership, strong distribution network and innovative product profile," says an analyst at Chola Securities.

This year Escorts is expected to benefit from equity investment by Japan's leading tractor major Kubota. Further, it will also acquire 40 per cent stake in Kubota's Indian subsidiary, Kubota Agri Machinery India for ₹900 crore, in an all cash deal. The deal will widen its product segments across geographies. The equity investment by Kubota will strengthen the balance sheet and will provide growth avenues for Escorts. As on June 22, the closing stock price of the Escorts was at ₹974.1. The company over last one year has given a return of 77 per cent.

"We value the stock at a 15 per cent premium to the last five-year average trading multiple. We believe the equity infusion by Kubota will strengthen the balance sheet and will provide multiple growth avenues for Escorts – both in India and internationally," points out an analyst at HDFC Securities. Many brokerages including HDFC Securities, Chola Securities and ICICI Direct remains positive on the long-term prospects of the company. 

himali@outlookindia.com

Escorts

➔ **CMP: 974.1**

➔ **PE: 24.26**

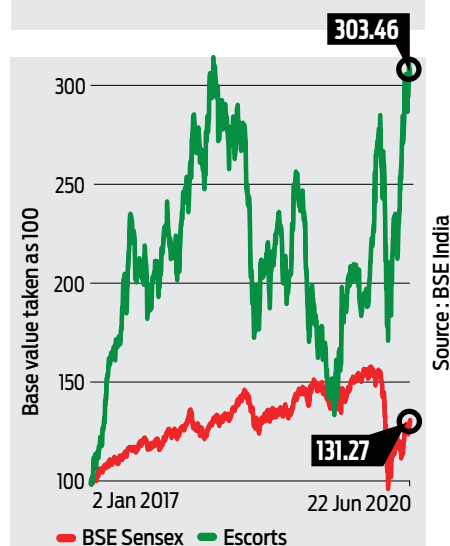
*As on 22nd June, 2020

Why Buy

- Innovative product profile with robust distribution network.
- Strong leadership position in the tractor industry.

Watch Out For

- Increased raw material prices, Delay in funds by Kubota.



Financials

Net sales (₹ crore)		PAT (₹ crore)	
FY20	5810.09	FY20	472.80
FY19	6264.84	FY19	477.90
FY18	5065.22	FY18	346.59
OP (₹ crore)		EPS (₹)	
FY20	760.00	FY20	38.53
FY19	816.86	FY19	39.07
FY18	618.55	FY18	28.31

OP: Operating Profit; PAT: Profit After Tax; EPS: Earnings Per Share; Source: Ace Equity

How To Deal With The Bear Hug

Defer some financial goals or take loans and diversify existing portfolio but avoid exiting in the red

By **Vishav**

Sumit Gupta (name changed), a first-time investor, put in around ₹3 lakh in an equity fund in 2018, hoping to have enough returns to buy a nice car when he turns 30. Hoping for 14-15 per cent annualised returns, Gupta hoped to have around ₹4.5 lakh by 2021. However, in April, still 10 months away from his 30th birthday, he got the shock of his life when he found the value of his corpus reduced to just over ₹2.10 lakh. While his portfolio has recovered a bit, he is still far from his goal.

Gupta is not alone. Many investors face this crisis as equity markets have washed off most of the gains they made over the last few years. While Gupta has postponed his plans to buy the car, it's an option not every investor has. There are many whose dates of realisation of goals are fast approaching with no possibility to push them to a later date: parents who were saving for their offspring's wedding or their higher education. Or those who were saving for retirement. These events and goals cannot be postponed. But with their corpus significantly eroded in value,

what can such investors do?

According to Archit Gupta, Founder and CEO, Cleartax, while it won't be wise to exit the market at this point, redeeming some of their investments might be the only option for such investors.

"We understand that children's education and future planning are of utmost importance. As the achieving of the goal cannot be deferred, it becomes essential to redeem at least some part of the investment," he says.

He advises such investors to pull out around 60 per cent of the corpus and utilise it for their requirement, while the remaining portion continues to stay invested.

"If 60 per cent of the portion is not sufficient, then look for other means instead of pulling out the entire investment, because that would mean exiting in the red which should be the last option," Gupta argues.

According to Nitin Shahi, Executive Director, Findoc, the pandemic took everyone by surprise and in the short term, not too many options were available for those who invested in equity. He advises a more proactive approach to tide over the crisis by reassessing the investment portfolio, and if possible, investing more via SIPs to take advantage of the fall in the equity market.

"In case of emergency requirements, especially for education, one can go for an education loan. For other goals, one can opt for loans against insurance and also gold loans as they are easily available and are one of the cheapest resources to avail credit in the short term. Unavoidable expenses may be done through

It is the best option for investors to take advantage of the rupee cost averaging



PPF withdrawals or loan against PPF. One can also opt for overdraft against fixed deposits," he suggests while cautioning against redeeming the mutual fund investments.

Cleartax's Gupta adds that while it is understandable that investors are alarmed since their investments are now in the red, they need to note that the current market scenario is not going to prevail, and therefore, they should not lose all hopes. And that is why, those who can defer their financial goals should do so and stay invested during this time.

"Exiting now won't help them achieve their goals. The best option for investors is to take advantage of the rupee cost averaging and invest more now as the stock prices and the cost of fund units have fallen, enabling them to pick more units for less money. Once markets start rising, which is expected given the past performance, they are going to erase their losses and move towards achieving their goals," Gupta explains.

In fact, as per data available with Cleartax, the goal-based investors who continued their systematic investment plans (SIPs) during the crisis now have their investments in the green territory because they made use of the rupee cost averaging to their advantage when the markets were subdued.

While those whose investments are already hit by the sudden crash in equity values have few options left, there are several lessons to be learnt from this crisis for a smooth investment journey.

First and foremost, never put all eggs in one basket as diversification is the key to balanced planning. According to Shahi, one must have at least 15 to 20 per cent share of their investment portfolio in cash and cash equivalents. Moreover, insurance should also be considered as an investment

product to cover exigencies. During such times, investors need to focus on taking two types of actions - preventive action to minimise further corrosion of investments and corrective action to get the investments back on track, advises Harsh Jain, Co-founder and COO, Groww.

"One of the best preventive measures is diversification. Investors must look at their current portfolio and rebalance it to diversify to reduce risk and enhance returns. And to bring their investments back on track, look at fresh investments based on the analysis of the stocks and mutual funds and the direction in which the economy is headed. Also keep liquidity in mind and dedicate a sizable portion to liquid funds or short term debt terms," Jain explains.

Anurag Jhanwar, Co-Founder and Partner, Fintrust Advisors, feels that one lesson to take away is that for short-term financial goals with a time horizon of five years or less, one should prefer investing in fixed return instruments which are comparatively safer and less volatile. "For long-term goals like children's education, marriage and retirement, it is advisable to invest into a mix of both equity and debt, with a higher allocation to equity to generate higher returns over a long term," he said.

ARCHIT GUPTA

Founder and CEO,
Cleartax



Those who increased the ticket size of their SIP have earned substantial returns

ANURAG JHANWAR

Co-Founder and
Partner, Fintrust
Advisors



Rebalance investments from risky to risk-free assets when goal is approaching

Equally critical is to have a safe landing for one's investment which can be done by rebalancing from risky assets to risk-free assets when the goal is approaching, either in parts or in one go.

"One can rebalance the portfolio by shifting money from equity to debt in four years, 25 per cent each year, preceding the said financial goal," Jhanwar explains. By following this, one would have already taken required steps if their goals were near, and shifted a major part of their portfolio to safer instruments before a crisis like COVID would have eaten away their returns.

"Alternatively, one can also rebalance all the equity investments into debt in one go, two years before the goal. It will depend on the need and comfort of the investor and also on the economic environment prevailing at that time," he adds.

If financial planning is not executed properly, it might lead to imbalances in the achievement of respective goals, which will lead to undercutting or cross funding of goal buckets; putting all such goals at risk. This could easily be avoided through proper planning and execution. Hence, it is critical to plan asset allocation as per risk profiles by aligning goals with objectives, and use professional help if needed.. ■

vishav@outlookindia.com

Millennials And The Gold Melting Pot

Sharp market corrections are making gold funds a lucrative choice for the young investors

By **Dipen Pradhan**

Gold is a symbol of wealth and holds a deep emotional connect with India's culture, and has served as a financial support through the years. But as the modern investment instruments become more visible and easily accessible, and high-end consumer goods become more lucrative, the young Indian population is reportedly becoming less prudent to invest in the golden metal. Further, the market facing global economic recession induced by the novel Coronavirus pandemic is unlikely to attract more young consumers at the time when the price of the golden metal is skyrocketing.

If history is a guide, gold has provided positive returns during periods of economic shocks, falling equity markets, high inflation, falling currency rates, and geopolitical uncertainties; however, entry at this point for an individual consumer will be at a higher price point. Gold prices in India rose to ₹48,420 per 10 grams on June 24, this year.

The Reserve Bank of India estimates the GDP growth of the country is likely to remain in the negative territory in 2021, and much will depend on how the curve begins to flatten and moderate. But why is gold performing at an all-time best during this uncertain period, and what does it mean for the investors in gold?

"Given the background of the global economy, gold as an asset class

Interestingly gold tends to do well in falling equity markets



is going to remain very much in the reckoning. There is no visibility in terms of economic return, and there is no rebound of economic activity – or, you see a very U-shaped or L-shaped recovery, which will take time. I think this could go to support gold," Hitesh Jain, Lead Analyst, Institutional Equities, YES Securities, says. "The other things which also remain supportive for gold are

expansionary monetary policy and fiscal policy, because when the central banks across the globe go on an expansionary mode to finance deficit with economic growth remaining low, eventually they have to print money, which again leads to monetary debasement – and gold as an alternative currency always comes back in the reckoning," he adds.

The COVID-19-induced lockdown has paralysed the country's economy,

and the stock markets around the world have tumbled frequently. Is this the good time to invest in Equity? "I'm not saying that you should not put your money into equity as it still makes sense to park your money in companies with a strong balance sheet, low leverage, and which are less vulnerable to this epidemic," Jain says.

When asked to compare the performance of gold with equities and real estate, Archit Gupta, CEO of Cleartax, says, "Equity investments deliver returns in a growing economy. Similarly, real estate investments yield returns in a growing economy aided by consumer demand. However, the prospects for both equity and real estate become dim in a slowing economy or in uncertain times."

On the contrary, gold tends to do well in the falling equity markets. Moreover, it reduces the risk of adverse price movements in an asset, making it a safe haven for investments. "Gold is an excellent hedging instrument in investment portfolios against losses from equity investments," says Sahil Arora, Director and Head of Investments, Paisabazaar.

The question looming at large is – beside cultural ties, emotions and pleasures associated with the golden wearable – will India's millennial also start to favour gold as a savings instrument option in the new normal? Let's look at its prospects.

A 34-year-old professional, Deepa Medhi bought gold after taking personal finance advice from her friends and parents. "But out of 10, only three friends of my generation might be investing in gold, especially girls," she says, adding that most of her friends do a mixed bag of short term-and long term-based investments.

Medhi, who moved to Bengaluru in 2011 from a tiny hamlet in Assam, has been investing in a 15-year SIP and another in a five-year term

mutual funds. She has also bought some gold because "it has always kept its value in the long term," she says, adding that she usually puts more money to her investment in gold after an appraisal.

Medhi is fortunate to have her job secure at the time when unemployment, layoffs have taken a toll across business sectors of India facing severe impact by the lockdown. As an emergency measure, gold is a handy asset to immediately convert it into cash.

She says, "Always check the hallmark and certificate when buying gold. Also make it a point to check any buy back facility the jeweler is providing." While India is the second largest consumer of gold, the market is flooded with retailers using the



Average Price Of Gold In India

YEAR	PRICE (24 karat per 10 grams)
2009	₹14,500.00
2010	₹18,500.00
2011	₹26,400.00
2012	₹31,050.00
2013	₹29,600.00
2014	₹28,006.50
2015	₹26,343.50
2016	₹28,623.50
2017	₹29,667.50
2018	₹31,438.00
2019	₹35,220.00

Source: Bankbazaar

HITESH JAIN

Lead Analyst –
Institutional Equities,
YES Securities



A U or L-shaped economic recovery will take time, which could support gold

yellowish charm of the metal to easily lure consumers into making them believe that it is pure. Indian government, through BIS, ensures protection of customers' gold through hallmarking by mandating sale of only 14, 18 and 22-carat jewels.

Regardless of the situation, investing in a certain quantum of gold is always a prudent approach. Let's understand that the economy and the financial markets go through the cycle. So an investor is always exposed to a risk. However, gold as an asset always protects an investor against such risk. "Gold is an ideal diversifier and an excellent hedging instrument in investment portfolios against other asset classes," says Arora.

A 28-year-old professional, Harday Gupta has been buying 10 grams of 24-carat gold every three months, along with his peer group. He has been buying gold because, "An individual buying gold will never face loss," he says. In fact, Harday plans to add some quantum of gold this month even though the price of gold is high. "What my prediction says is, if the price of gold is between ₹46,000 and ₹47,000 right now, it will be above during the festive season. The price will definitely go at the higher side," says Harday. It is not necessarily true that the price of gold tends to shoot up during the festive season as it has a diverse set of demand drivers such as, "its role as a reserve asset for various central banks, consumer demand in the form of jewellery and as an instrument for 'store of value' against inflation risk. All these

Different Ways To Buy And Invest In Gold

GOLD	TYPES	PLACE OF PURCHASE	FEATURES
PHYSICAL GOLD	Jewelers	Retailers, E-Commerce	6-25 per cent making charges
	Coin	Jewelers, Banks, NBFC, E-Commerce	Ashok Chakra and Mahatma Gandhi engraved on the sides
			Available in denominations of 5 and 10 grams
			Buy back options available
	Gold Bar or Gold Bullion	Retailers	Available in denomination up to 1 kg
			Stored in a locker at home or the bank
GOLD SAVINGS SCHEMES		Reputed Jewelers	Monthly recurring deposit mode of payment available
			Buy gold when the term ends
			Discounts on Premiums available
PAPER GOLD	Gold Exchange Traded Funds	Stock Exchanges	Buying and selling happens in NSE and BSE
			Trading account and a demat account required
			Can be bought in lump sum or through SIP
	Sovereign Gold Bonds	Banks	Issued by the government
			Has a tenure of eight years
			Buy minimum of 1 unit up to 4,000 units of gold bond in a FY
DIGITAL GOLD	Gold Accumulated Plans	Paytm	Only for Paytm users
			Buy minimum amount of gold starting from 0.001 gram
		Stock Holding Corporation of India	Buy gold for a minimum value of ₹1,000
			Minimum of 1 gram gold can be taken

ARCHIT GUPTA

CEO,
ClearTax



New investors in gold should consider the period of investment in short or long term

factors provide stability to the demand for gold in a diverse range of economic environments,” says Arora. Meanwhile, Bank of America Merrill Lynch predicts the price of gold is likely to reach \$3,000 by the end of 2021.

Financial advisors advise that even in good times, a prudent approach is to park at least five per cent of wealth in gold, while maintaining a diversified portfolio. Given the companies earning outlook is currently uncertain in the market, it makes sense to increase the allocation in gold. “If you’re putting about five to seven per cent of your holdings in gold, that allocation can actually be increased to maybe 10 to 12 to 15 per cent,” says Jain.

Here are a few tips for youngsters looking to invest in gold. “Those without adequate exposure to gold may consider starting investing in it in-case of any steep correction in gold prices in the future. Investors can always use their asset allocation strategy to redeem part of their investments in other asset classes and use it for lump-sum investing in gold funds to average its investment cost,” says Arora.

However, investors looking to relocate their portfolios should consider the risk and return of the alternate investments such as gold or bonds. “One should also consider the period of investment, whether they wish to invest in the short-term or the long-term. In uncertain times, the safety of money should be of the utmost importance,” says Gupta. 

dipendra@outlookindia.com

WHAT IS HEDGING?

If done properly, one can make profits by trading in commodities. However, commodity trading is fraught with risks. These risks come because price of commodities may fluctuate.

Hedging is nothing but a risk management strategy. The idea of hedging is to eliminate the uncertainty that comes with price fluctuations. Hedging is thus a way of protecting oneself against a negative event. Hedging does not stop the negative event from occurring but reduces the impact of such an event. So hedging is similar to insurance. If one takes health insurance, one cannot protect oneself from a health emergency, but insurance can ensure that the cost of one's

treatment is reimbursed. Hedging is used not only by individual traders in the commodity market, but also by institutional investors and large corporations.

Hedging is based on the principal of offsetting. When hedging is done, one takes equal but opposite positions in two different markets. The idea is to hedge a certain investment with the help of some other investment. Hedging is a strategy in which you protect loss in investment A by a profit in investment B.

Similarly, hedging is done in commodity trading to protect someone from fluctuating prices. Let us take an example. Let us say that a farmer is into the business of processing wheat. The current price of wheat ₹15/kg. However, the

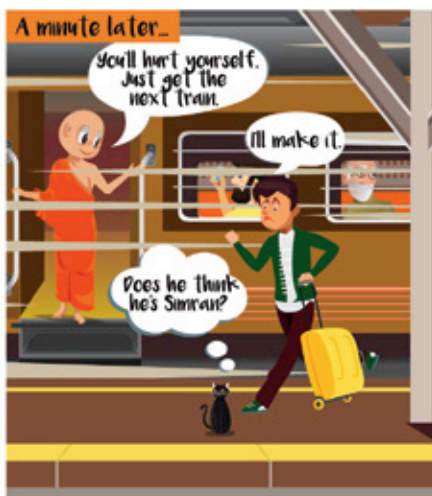
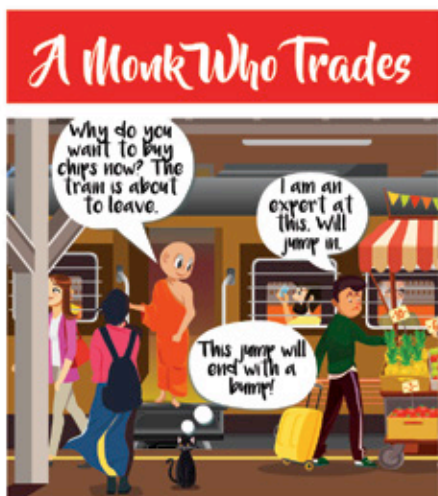
Hedging is nothing but a risk management strategy.

farmer anticipates that the price of wheat may go up. So the farmer buys a position in the future market at today's price, that is ₹15/kg for a date a month later. After a month, the price of wheat goes up to ₹20/kg. But the farmer can still buy wheat at ₹15. Here, the farmer is basically hedging against the price of wheat by buying a futures contract. However, if after a month wheat is selling at ₹14 a kg, the farmer can buy what for ₹14/kg and the contract lapses.

Let us take another example. There is another

farmer who is in the business of selling maize. The current price of maize is ₹25/kg. He anticipates that the price of maize may fall to ₹20/kg after a month. So he sells futures contracts at today's price (₹25) a future date a month later. If after a month the price of maize falls to ₹20 a kg, he can still sell the maize at ₹25/kg according to his contract. In this example, the farmer is selling futures in the market to protect himself from a fall in prices and hedging his losses.

As we have seen, risk is an essential part of commodities trading. Having a basic knowledge of hedging and apply hedging strategies in correct manner will help you understand the market better, protect yourself from losses and be a better investor. ●



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SBI Dynamic Bond Fund

Investment Strategy

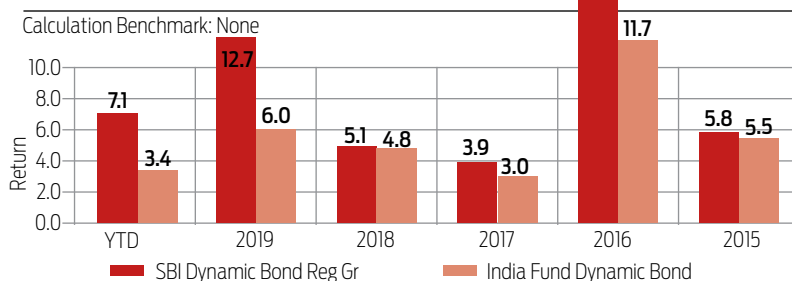
Dinesh Ahuja has been the lead portfolio manager of this fund since February 2011 and has a total experience of more than 22 years, with about 13 years' experience in fixed-income fund management. The stability of the investment team and its long tenure at the helm is a positive.

The fund is driven by a flexible mandate to move across the segment with an active-duration strategy. It employs a bottom-up investment approach with a top-down overlay to generate superior risk-adjusted returns. A top-down approach guides portfolio positioning around the predetermined risk parameters by assessing gross domestic product/inflation, monetary/fiscal policy, interest rate, liquidity, yield curve, credit spread, and so on, while the intensive bottom-up credit research uses an in-house model for

security selection. The managers use various qualitative and quantitative parameters and put a lot of emphasis on the company's management, business, and financial health. They also use the analysis of sell-side research and credit-rating agencies to form a view on the creditworthiness of companies, but to a limited extent. The credit committee then reviews the rated securities, and the approved securities are assigned credit and tenor limits. The risk-management team also periodically reviews the portfolio.

The portfolio is constructed purely based on the underlying instrument's liquidity. Lower credit bets are avoided. Manager Dinesh Ahuja sometimes invests in extreme long debt instruments capped at 10-15 per cent. The fund's low expense ratio is a positive.

Calendar Year Returns



Trailing Returns

Data Point: Return Calculation Benchmark: None

	YTD	1 Year	3 Years	5 Years	10 Years
SBI Dynamic Bond Reg Gr	7.10	12.81	8.06	9.47	9.30
India Fund Dynamic Bond	3.43	6.58	4.70	6.38	7.03

Fixed-Income Statistics

Fixed Inc Style Box (Long)	High Mod
Average Eff Duration	-
Average Eff Maturity	10.6
Average Coupon	7.5
Average Price	106.9

Fixed Income Style Box

			High
			Med
			Low
Ltd	Mod	Ext	

Top Holdings

	Portfolio Weighting (%)
GOVT STOCK	43.52
7.26% Govt Stock 2029	16.06
7.17% Govt Stock 2028	14.86
7.16% Govt Stock 2050	7.71
Power Finance Corporation	6.75
Indian Railway Finance Corporation	3.06
8.24% Govt Stock 2033	2.32
5.79% Govt Stock 2030	1.33
State Bank Of India	1.12
GOVT STOCK	0.34

Fund Snapshot

Morningstar Category	India Fund Dynamic Bond
Fund Size (₹)	15.1 billion
Inception Date	9/2/2004
Annual Report Net Expense Ratio	1.65
Morningstar Rating Overall	*****
Manager Name	Dinesh Ahuja
Minimum Investment (₹)	5,000
Morningstar Analyst Rating	Neutral

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SBI Magnum Midcap Fund

Manager Biography And Fund Strategy

SBI Magnum Mid Cap has been in existence since 2005 and has been managed by Sohini Andani since 2010. Andani's extensive experience as an analyst and a research head stands out in her bottom-up approach to stock selection.

The AMC differentiates its funds based on absolute and relative return frameworks. This is an absolute return mid-cap strategy that aims to invest in Sohini Andani's high-conviction ideas. While being conscious of valuations, the team evaluates a company's management and focuses on stocks that are able to meet its threshold in terms of CAGR and a consistent ROCE over a three to five year horizon. The team lays emphasis on the management and takes into consideration the promoter's integrity, past track record, holding in the company, and so on, and look at investing in businesses with high entry barriers. The in-house model

portfolio forms the basis for stock selection and consists of the team's best ideas. Valuations are looked at on an absolute basis relative to the stock's 10-year history. The fund has largely maintained an orientation towards growth stocks and is focused on long term (three to five years) visibility. The team's approach towards investing in companies with a high ESG scoring is a positive measure to maintaining a clean portfolio. The team takes a sector view as a fund house, with stock selection left to managers who could remain uninvested in sectors where they don't find the right opportunities.

Andani aims to invest in companies with a relatively high risk/reward ratio. The core mandate and strategy of the fund remain undiluted despite the growth in its size. The portfolio is well-diversified and currently constitutes around 50 stocks; the top 10 holdings account for around 50 per cent of the portfolio.



Portfolio Date:
30/5/2020

	%
Basic Materials	22.9
Consumer Cyclical	18.3
Financial Services	9.6
Real Estate	5.1
Consumer Defensive	0.0
Healthcare	15.2
Utilities	6.2
Communication Services	0.0
Energy	0.0
Industrials	14.3
Technology	8.3
Total	100.0

Top Holdings

	Portfolio Weighting (%)
PI Industries	8.83
Sheela Foam	7.53
Coromandel International	5.30
Dixon Technologies	5.03
Godrej Properties	4.96
Gujarat State Petronet	4.86
Alembic Pharmaceuticals	3.74
Ramco Cements	3.58
Page Industries	3.57
Sanofi India	3.54

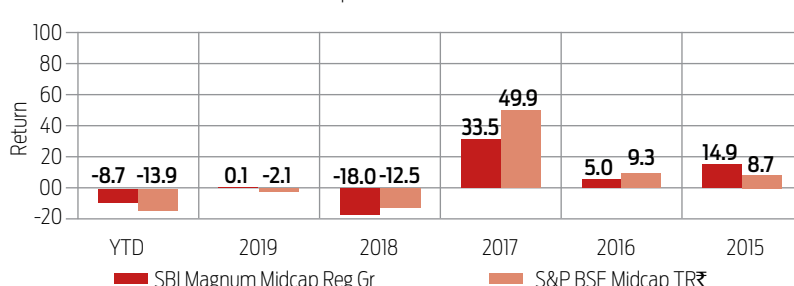
Fund Snapshot

Morningstar Category	India Fund Mid-Cap
Fund Size (₹)	29 billion
Inception Date	29/3/2005
Annual Report Net Expense Ratio	2.33
Morningstar Rating Overall	***
Manager Name	Sohini Andani
Minimum Investment (₹)	5000
Morningstar Analyst Rating	Neutral

Data Source: Morningstar India

Calendar Year Returns

Calculation Benchmark: S&P BSE Midcap TR ₹



Trailing Returns

Data Point: Return Calculation Benchmark: S&P BSE Midcap TR ₹

	YTD	1 Year	3 Years	5 Years	10 Years
SBI Magnum Midcap Reg Gr	-8.72	-8.40	-5.83	2.16	11.42
S&P BSE Midcap TR ₹	-13.91	-10.16	-3.72	5.31	7.68

Axis Bluechip Fund

Manager Biography And Fund Strategy

Shreyas Devalkar has been managing the Axis Bluechip Fund since November 2016 and plies a structured and well-thought-out process of investing with a focus on quality and growth.

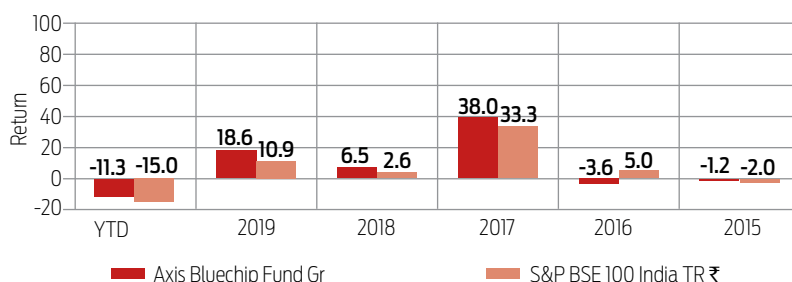
Shreyas Devalkar's portfolio is a high-conviction one where he invests in stocks from blue-chip companies across sectors that he views positively. He looks at sectors from a top-down perspective and evaluates individual stocks from a bottom-up perspective. Rather than investing in sector leaders, the manager evaluates companies based on their fundamentals, growth trajectory, corporate governance, financials, and so on. They place a lot of focus on corporate governance and this leads them away from some

companies despite their (possibly) higher growth trajectory. The manager chooses stocks based on the PEG ratio as opposed to the P/E ratio of a company. The focus is on being able to identify companies with sustainable earnings growth potential, credible management, and acceptable liquidity. Stock-picking is based on a fundamental bottom-up approach with added emphasis on top-down risk parameters, liquidity profile, and internal volatility targets. From a financial standpoint, they look for firms with lower capital gearing and strong balance sheets.

The fund has a benchmark agnostic portfolio that typically shares a very low overlap of about 25-30 per cent with the IISL Nifty 50 TR Index.

Calendar Year Returns

Calculation Benchmark: S&P BSE 100 India TR ₹



Trailing Returns

Data Point: Return Calculation Benchmark: S&P BSE 100 India TR ₹

	YTD	1 Year	3 Years	5 Years	10 Years
Axis Bluechip Fund Gr	-11.33	-4.25	7.90	8.38	10.31
S&P BSE 100 India TR ₹	-14.96	-11.08	2.48	5.81	8.21



Portfolio Date:
30/4/2020

	%
Basic Materials	7.2
Consumer Cyclical	4.0
Financial Services	33.4
Real Estate	0.0
Consumer Defensive	18.9
Healthcare	9.4
Utilities	0.0
Communication Services	6.9
Energy	6.0
Industrials	0.0
Technology	14.3
Total	100.0

Top Holdings

	Portfolio Weighting (%)
HDFC Bank	7.21
Avenue Supermarts	6.50
Infosys	6.15
Kotak Mahindra Bank	6.05
Bharti Airtel	5.50
Tata Consultancy Services	5.22
Reliance Industries	4.82
ICICI Bank	4.57
Nestle India	4.38
Bajaj Finance	4.36

Fund Snapshot

Morningstar Category	India Fund Large-Cap
Fund Size (₹)	130 billion
Inception Date	5/1/2010
Annual Report Net Expense Ratio	2.30
Morningstar Rating Overall	*****
Manager Name	Shreyash Devalkar
Minimum Investment (₹)	5000
Morningstar Analyst Rating	Neutral

Data Source: Morningstar India

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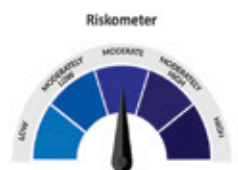
BHARAT Bond ETF - April 2023

- Income over the Target Maturity period
- [^] An open ended Target Maturity Exchange Traded Bond Fund that seeks to track the returns provided by Nifty BHARAT Bond Index - April 2023.

BHARAT Bond ETF - April 2030

- Income over the Target Maturity period
- ^{^^} An open ended Target Maturity Exchange Traded Bond Fund that seeks to track the returns provided by Nifty BHARAT Bond Index - April 2030.

*Investors should consult their financial advisers if in doubt about whether the product is suitable for them.



Investors understand that their principal will be at Moderate Risk

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

Have A Robust Plan To Prosper

We must stay cautious and prudent in our investment strategies in the face of volatility



Ashu Sabharwal, 52, runs a boutique market research company-Qualisys. She lives with her two children, Mudit and Omanshi. While Mudit is pursuing law from Delhi University, Omanshi is in her first year of graduation in Mass Communication & Journalism.

Sabharwal took charge of her family's financial plan after her husband's demise in January 2018. Without much exposure to money matters, she wanted to stay risk-averse and invested all her savings in fixed deposits.

However, her financial plans took the right turn a few months later

when she met Jitin Jain, who was then a part of Axis Bank. He is now an independent financial advisor and continues to guide Sabharwal in her financial affairs.

The preliminary conversations with Sabharwal helped Jain work out individual goals and suggest a comprehensive solution, which could add tax efficiency over the current structure. Prioritising safety over returns, Sabharwal was apprehensive about investing in equity and diversifying across debt funds. Jain helped her understand the concept of Systematic Investment Plans (SIPs), and with

Stick to the agreed plan and stay focused on long-term goals

some persuasion, she was convinced about investing in equity, through SIP route.

Jain recalls that campaigns like- "Mutual Fund Sahi Hai", (Mutual Fund is the right choice), among others, have played a crucial role in spreading awareness among masses.

They started with a monthly SIP of ₹1 lakh for long-term goals. Further, any surplus amount

Disclaimer

Financial Planning of Ashu Sabharwal is based on the "personal opinion and experience" of Jitin Jain and that it should not be considered professional financial investment advice. No one should make any investment decision without first consulting his or her own financial advisor and conducting his or her own research and due diligence.

available for investment in lumpsum was allocated to banking and PSU debt funds and short-term debt funds, considering they have a relatively better risk profile. It was also agreed upon that fixed deposits on their respective maturity dates would be switched to the above-

stated category of debt funds for better and tax-efficient returns. A portion of the surplus was also invested in asset allocation funds to manage the needs of portfolio diversification. Jain shares how they have a first-hand experience of market volatility

through the investing behavior of their clients, including Sabharwal. During initial days of good performance in equity markets, Sabharwal was excited to see her portfolio, especially the asset allocation funds perform better than the traditional investment products. She had also asked for converting some of the debt fund investments to asset allocation funds owing to their outperformance.

More recently, when the markets took a beating, she got concerned about the safety of her investments and wanted to discontinue her incremental investments through SIPs. Such investing behavior has not been exclusive to Sabharwal, but most retail investors. However, this is where the role of a financial advisor comes into play.

On each count, Jain insisted on sticking to the agreed plan and staying focused on long-term goals. Besides recommending her to shift her investments to schemes that have recently performed well, he continued with the pre-decided asset allocation strategy and avoided skewing it towards any single asset class. He would stick to funds with a proven track record across various market cycles. He also advised on continuing SIP, while explaining the logic and advantage of buying low, when markets have shown turbulence. Even within debt funds, the focus remained clearly on risk-adjusted returns, instead of returns. Such a prudent investing strategy helped her debt portfolio reflect over 8 per cent CAGR.

Even as the country fights an unprecedented situation, the need of the hour is to be cautious and prudent in our investing strategies. ■

Things To Look Out For

With continuing volatility across equity markets, there is a lot to learn:

1) Have your goals defined:

Investors should have their goals clearly defined, both for the long and short term. This helps them prepare a roadmap for such goals and also measure the investment performance objectively. It also allows them choose the schemes best suited as per their investment horizon and risk appetite. For example, equity as an asset class might not be suitable for short-term goals but would be better suited for the long term owing to its wealth creation potential.

2) A robust financial plan is indispensable:

It is often said, "a goal without a plan is just a wish." Investors must have a clear strategy to achieve their financial goals in a time-bound manner. While effective implementation holds the key, a robust plan is crucial for financial prosperity, as it helps them control their emotions over investment plans. Amid volatility a sound financial plan can help investors be in a better position to withstand the hiccups from domestic and global markets.

3) Stick to the plan:

Retail investors are experiencing tough times fighting the market volatility and emotional biases. However, they should continue to invest in markets, as it allows them to continue saving for their goals. However, if recent economic disruptions, caused by the lockdown, have temporarily impacted your cash flows, you may consider pausing your SIPs instead of discontinuing them. This will help you continue with your investment plans as and when the cash flow normalises.

4) Trust your financial advisor:

Investors need to stay patient as the markets can be volatile in the short term. Instead, they must continue to focus on their financial goals and understand that short-term volatility is not likely to impact their long-term goals significantly. This is where financial advisors play a crucial role for investors in reinforcing their lost conviction in the markets. One must look at one's financial advisor as the guardian for financial plans.



Jitin Jain
Independent Financial
Advisor



Dear Editor,

My first experience in handling money independently started way back in 1986. My engineering days were spent in a hostel and from my gathered experience I can proudly say that the hostel can be a great teacher. The initial months taught me how to estimate my expenses and seek a reasonable monthly allowance from my parents. At the age of 22, I moved to Mumbai for my MBA. By the time I got my first job, I was quite proficient in the estimation of expenses, budgeting, spending, contingency planning, and learnt concepts like time value of money, compounding effect, and return on investment.

I started my career at Godrej & Boyce and had to share an apartment with my friends. By the end of the second year, I was amazed at the amount of money I had managed to save. I realised that my expenses as a student to a bachelor wage earner had not changed much.

During those days when my career had just begun, I learnt a very supreme lesson – 'Spend on what you need and not what you can afford.' This lesson has stayed with me throughout my life. Even today, as a family, we spend on the essentials and have never been extravagant in our lifestyle. This practice takes care of one part of fiscal management expenses.

I joined financial services in 1994 and started with auto loans; hence became familiar with reducing balance rate of interest versus simple interest, and calculating IRR (Internal Rate of Return). Until then, out of sheer inertia and lack of understanding, I used to roll over my credit card payments. Later, I realised the folly of borrowing at 24 per cent per annum and switched to a credit card. Now, I can enjoy the benefits of the interest-free period and loyalty points but always pay in full on the due date.

Around this time, the Non-Banking Financial Companies (NBFCs) were pervading the market and people were getting swayed by the lucrative returns they offered. The NBFC collapse taught us to never misconstrue the risk in investments. The fact that you can lose the entire principal amount while chasing marginally higher returns is a reality.

Over the years, I moved to the bank and started advising clients on managing portfolios. I have started practicing what I preached, assessing my risk-taking capabilities and about the discipline of the Asset Allocation Model. I ensure that my portfolio is allocated thoughtfully into equity, fixed income, recurring deposits, SIP, gold, and property. I have also invested in NPS (National Pension Scheme) as it is tax effective with the lowest cost. Apart from these practices, I have consciously eluded short term insurance plans as they do not yield good returns.

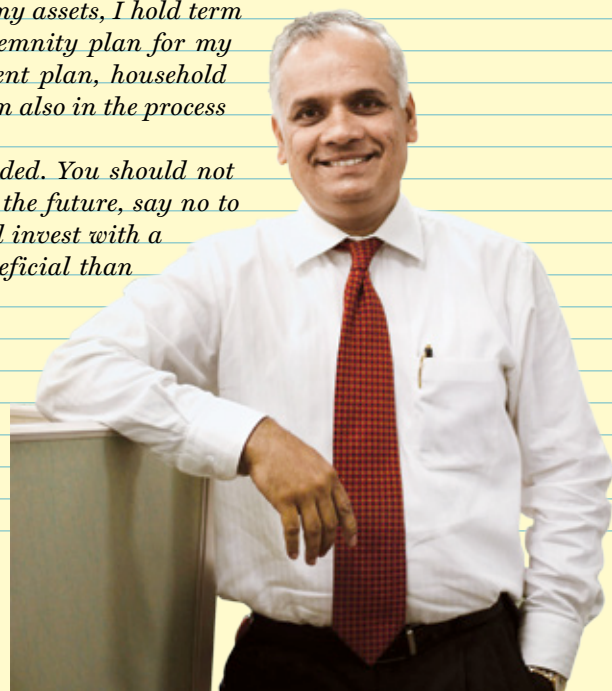
When it comes to equity, I was always a keen IPO investor as I believed it can give good returns. After losing my money several times, I have become quite wary of them. It has taught me to be a passive investor, which means investing in few companies with good track records, consistent performance, good governance, and finally leaving the investment alone. Over the years, I have received commendable returns from these stocks.

In 2014 I was given the mandate to start Kotak General Insurance. Prior to that, I only had a motor insurance policy. In order to actively secure my assets, I hold term insurance equivalent to five times of annual pay, health indemnity plan for my family with a large cover, critical illness and personal accident plan, household insurance plan to protect my properties and valuables, and I am also in the process of taking a cyber-insurance plan.

In a nutshell, the principle is to spend on only what is needed. You should not borrow beyond which you can not comfortably repay, save for the future, say no to greed and ignorance, ensure and allocate the assets wisely, and invest with a long term perspective. Time in the market is always more beneficial than trying to time the market. ■

Mahesh Balasubramanian

MD & CEO, Kotak General Insurance



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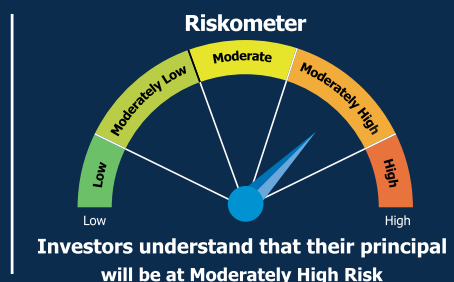
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