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Contents

JUNE 2020 ■ VOLUME 19 ■ ISSUE 6

Invest Smartly Keeping A Long Term View

It is important to diversify the portfolios across asset classes, as it will assist in hedging the portfolio during a market downturn

pg 14

Regulars

8 Talk Back 11 Queries 13 News Roll 74 Dear Editor

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



pg 68

Emergence Of Transformation

Insurance sector is switching to the digital platform for a fast and cost-efficient result



pg 74

Dear Editor

Gurpreet Sidana,
Chief Operating Officer,
Religare Broking shares his
investment journey in
equity trading

38 Identify The Turmoil

It is important to acknowledge the risk factor associated with debt mutual funds, and act accordingly

44 The Golden Glitter

Gold to play a critical role in the pandemic as it is likely to surpass ₹50,000 mark in next 12 months

48 Stockpick

A steady performance of NTPC and Britannia Industries

50 Morning Star

In focus: HDFC Gift Fund, ICICI Prudential Bluechip Fund, Nippon India Large Cap Fund

54 Surviving The Storm

For a proper investment re-align amid the crisis, re-check your financial goals, and re-prioritise your needs

58 A Lifestyle Disease

Analyse the diabetes-specific health insurance policy, before a diabetic pandemic sets in

62 Role Of Term Insurance

Explore the pros and cons of term insurance before investing

72 My Plan

Amidst all negativity, it is advisable to invest in equity, to experience a comfortable financial status

Columns

Ajay Bagga, Raamdeo Agrawal

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Economy In Labour Crisis



New investment rules, portfolio diversification and asset allocations are the new norms post pandemic



ARINDAM MUKHERJEE
arindam@outlookindia.com

Over the last weekend, I spoke to some companies in the civil construction sector. They said that although the government has allowed them to start industrial activities, they were facing a unique problem: labour. With migrant labor returning to their home states due to the COVID-19 pandemic, there were not enough people to man operations on the ground. Efforts by these companies to get people from Bihar, Bengal, UP and Odhisa did not bear fruit and they feel labour may not return before July-August severely impairing their ability to kick start economic activity.

The situation in many other sectors is pretty much the same. Take the aviation sector for example. Although the government opened up domestic air travel on March 25, the first day was marked by over 100 cancelled flights from Delhi and Mumbai alone. This sector which has been on a complete standstill since the nationwide lockdown was announced on March 25, will take some more time to return to normalcy.

With international air travel slated to begin in the next two months, economic activity is expected to resume. But a lot of damage would have already been done. Globally, airlines are estimating that their losses could be to the tune of \$113 billion in the current year and that could be a conservative estimate.

The good thing is that the stock markets are showing some resilience and there are signs of recovery. The Sensex has mostly stayed over the 30,000 level which is a good sign.

But the worrying factor is that foreign investors have pulled out about \$ 26 billion from developing economies in Asia. The figure for India is about \$16 billion, according to a latest report by the Congressional Research Center.

Though foreign portfolio investors have started making their way back to the Indian markets turning net buyers after selling heavily in March, it will take

some time before normalcy returns to the Indian markets.

However, the big question now is whether the Rs.20 lakh crore economic package announced by the Prime Minister will bear fruit. There is a general feeling that many of the policy measures announced are long term and may not have a direct connect with the COVID-19 crisis. For example why amend the Essential Commodities Act now or open up disinvestment at this point when the private sector is pulling back on all investments.

Of course it will help the MSME sector, which will boost economic activity on the ground. The MSMEs have been repeatedly worst hit, first during demonetization and now the pandemic. A large number of units have shut down. This package could come as a welcome help. The ₹3 lakh crore worth of collateral free loans, ₹20,000 crore of subordinate debt and ₹50,000 crore of equity infusion, change in MSME definition and e-linkages to the markets would greatly help the sector.

The reduction in repo rate announced by the RBI is getting mixed signals. While it may be good for net borrowers, it may turn out to be counter-productive for the common man as his deposits will earn less and will hit senior citizens who live on interest from savings and fixed deposits. It will also not be very good for investors as debt funds may not see higher returns.

On the other hand, it is not very clear who the extension in moratorium on EMIs by another three months will help. The first three-month moratorium had mixed reactions as most people were looking at the increased interest burden and many opted out of it. This second round may see similar results.

There is large scale expectation that there would be more economic packages from the government as we move ahead and start learning to co-exist with the coronavirus. The next few weeks would be important and will clear the air on how the economy performs amid these difficult times. ■

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Time To Upgrade Risk Appetite

The article on disciplined asset allocation and long term investment is absolutely a must read according to me. Amid the crisis, people are befuddled regarding finance, and such guidance in the financial world is highly appreciated.



Soumyabrata Banerjee, Kolkata

Jobs Are At Risk But All Is Not Lost



The COVID-19 outbreak is giving sleepless nights to all the employees. As we all know, the experts are predicting a huge percentage of job loss and salary cuts worldwide. I found this article highly important as it is giving us a wider picture of its impact on every sector. It also

guides the freshers and mid level employees separately on how they can polish their skill set to survive the battle.

Susheel Malhotra, Mumbai

Tomorrow Is Going To Be Yet Another Day

This story has been brilliantly woven, talking about the base of startups in our country that has been jolted because of the sudden wave. Despite the digitised amount of funds raised for the startups it is a hard time for them, especially the ones at the early stage because of the lack of capital infusion. I also liked how it threw light on different categories of startups, and how the digitized ones might stand a chance.



Aratrika Jain, Bangalore

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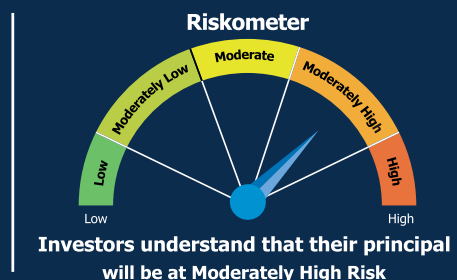
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Trapped In The Whirlwind Of Adversity

We are stuck in a maze of hardships, and as per the economy is concerned this crisis has simply added to it. The pandemic has just fastened the process of slipping into an economic depression.

I was taken aback when I read about the position of the organised sector in the negative zone. We are undoubtedly in a ship that has been badly hit by large waves. I had a great time reading the article.

Bidisha Gupta, Mumbai

Eternal Money Lessons From Life

This story was surely a priceless lesson for me. The examples that the author has taken to explain the basics and importance of reinvesting are quite compelling. I absolutely agree with the entire concept of learning from the crisis instead of panicking and worrying about the future investments.

Anushka Bajpai, Pune

Battling The Black Swan

It was quite an interesting article, learning about the unpredictable black swan and history of all the deadly pandemics that the economy had to battle through. It

is frightening to learn about the abnormal changes that will settle in almost every sector. The need of the hour is a correct strategy, when it comes to investment. However, it is necessary to keep our hopes high and adopt the changes required to recover from the crisis.

Kushal Tripathi, Delhi

Resolving The Instalment Dilemma

RBI's decision to grant an optional three month moratorium was like the talk of the town. However, people were still unsure whether to go for this option or simply continuing paying the EMIs. This article vividly describes the matter and alongside mentions the lot that will benefit from the

new moratorium. It is an important story for people stuck in the box of dilemma.

Sandeep Jha, Chennai

Making Millennials Creditworthy

It was a great experience reading about the growth of ZestMoney. I have always found the fintech space to be very fascinating.

Trishita Guha, Kolkata

My Plan

The story on the importance of asset allocation strategy was a lesson for me. Many people fail to fathom how important it is to continue investing in the volatile markets and also to switch the existing investment products from the traditional ones into mutual funds once they are matured. Especially in times like these a strong and cautious financial plan is an absolute necessity.

Asmita Jaiswal, Mumbai

Putting Money To Best Use In Crisis

Navigating in the dark surely needs strong guidance especially when it comes to finance. I am thankful to Outlook Money for sharing such an important article with us. I found the language very lucid and well described, especially the guideposts.

Aisha Dubey, Bangalore



Always Keep Your Protection And Investments Separate

PRASHANT PN, BENGALURU

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I am 40 years and have invested in Kotak Headstart Future Project. The policy commenced in 2008 with a premium term and a benefit term of 18 years. I have regularly paid ₹50,000 annually as premium. The fund has given me an 11 per cent return since inception. Should I continue to pay a premium until the term or do you suggest a better alternative?

We always recommend keeping protection and investments separately. You should consider



taking a pure term plan for a higher life cover. Invest the remaining amount in a diversified equity mutual fund. You may augment

the investing quantum as much as possible. Since the existing insurance cum investment plan is more than 10 years, there will not be any surrender charges, though you can thoroughly cross-check the same with the insurance company. You may do so after considering the present fund value and if you would like to take the call once the value stabilizes.

Sriram B.K.R., Investment Strategist at
Geojit Financial Services

SUBHASH DUTTA, KOLKATA, subhashdutta2012@gmail.com



I need regular monthly dividends. Which is the best fund to invest in? My second question is about whether HDFC TOP200 mutual fund SIP investment is advisable or not?

Answering your first question, dividends in mutual funds are not guaranteed, and the NAV of the fund is reduced to the extent of the dividend declared. You could add exposure to ICICI Prudential Multi Assets Fund, DSP Equity & Bond Fund. Answering your second question, as per Sebi order (2017) now the fund name is HDFC Top 100. But in recent years the fund has performed poorly in comparison to his category. We would hereby suggest not to add exposure to this fund.

Abhishek Raja Ram, FCA, M.Com (F&T), DISA (ICAI)

UJWAL SAPROO, DELHI

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I wanted to know about the kind of financial investment one should make for a one-year-old child to fulfill the future financial requirements, which involves higher education and a secure future.

Goals for a child are long term in nature. And if you want to secure the future then we would recommend adding exposure to any Multicap and "Large & Mid Cap" Fund with following AMC's which also offer Free Insurance as Nippon India, Aditya Birla or ICICI Prudential.

Abhishek Raja Ram,
FCA, M.Com (F&T), DISA (ICAI)



NIKHIL BHATIA, MUMBAI, nikhilbhatia147@gmail.com

I am an employee with a monthly income of ₹2 Lakh and my wife's monthly income is ₹1 lakh. In pursuit of investment options for our savings with no taxability, we have exercised the option of investing 100 per cent of basic salary in a Voluntary Provident Fund. Due to the VPF outgo, we now save only 30 per cent more than our monthly expenses. We also have surplus savings in FDs for any emergency. My set of queries are:

(1) All the VPF investments and returns and maturity withdrawals after 5 years will be completely tax-free? The cap of ₹1.5 lakh will not be applicable here and full interest income will be tax-free? (2) Do we have the right investment approach here?

Answering your first question, yes it will be tax-free. If you are referring to the Section 80C limit, VPF contributions are eligible for deduction under it which has a limit of ₹1.5 lakh per FY. Answering the second question, salaried individuals with a higher salary in Basic+DA, VPF is a good option.

With regards to the investment approach, it depends on the risk profile and the periodic cash flow needs of an individual. I would suggest re-evaluating the current asset allocation of your investment portfolio. You may consider an allocation to equities, if your risk profile permits and the investment horizon is long term. There are two pointers to it. One, going by the empirical data, equity has a higher probability of outperforming other asset classes in the longer term, even on a post-tax basis. Equity long-term capital gains are exempted up to ₹1,00,000 per FY and excess gains, if any, are taxed at 10 per cent. Two, diversification of long-term surplus into equities assumes significance in a declining interest rate trend.

We always recommend keeping an allocation to Gold in the overall portfolio. We will recommend the Sovereign Gold Bond, Gold ETF, or Gold Savings fund route. As far as the emergency fund is concerned, consider moving a portion of that from FD to a well-diversified debt mutual funds with high credit quality.

Sriram B.K.R., Investment Strategist at Geojit Financial Services

ADAM, PUNE

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What is the maximum permissible age of children for claiming tuition fee deduction under Section 80C of income tax rules?

There is no age limit for children prescribed under Section 80C of the Income-tax Act, 1961 for claiming deduction in respect of the tuition fees paid. It should be noted that the deduction can be claimed in respect of tuition fees paid to university, college, school or other educational institution situated within India for full-time education for any two children of such individual.

Poorva Prakash,

Senior Director, Deloitte India

PRATIBHA, MUMBAI

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What is the best tax saving mutual funds to invest in?

I would suggest that the best tax saving mutual funds are Aditya Birla Tax Relief '96, Axis Long Term Equity Fund, DSP Tax saver, Mirae Asset tax saver, Tata India Tax savings. Also do not forget to evaluate your risk profile and investing horizon before taking the decision.

Sriram B.K.R., Investment Strategist at Geojit Financial Services

SNIGDHA, DELHI

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I do not want to continue my home loan insurance. Can you guide me through the process?

Neither the law nor the regulatory bodies such as RBI or IRDAI have made the purchase of home loan protection plans with a loan mandatory. Purchasing an insurance plan is the sole discretion of the buyer and borrowers cannot be forced to purchase such plans. You should contact your bank/branch that you do not need insurance.

Abhishek Raja Ram,

FCA, M.Com (F&T), DISA (ICAI)



EMI Moratorium For Another Three Months

The Reserve Bank of India's Monetary Policy Committee (MPC) was scheduled in the first week of June. However, a fortnight before the scheduled meeting, the apex bank decided to call an off-cycle meeting of the committee between May 20 and 22, during which it decided to cut its repo rate by 40 basis points to 4 per cent, while also extending the EMI moratorium on all term loans by another three months till August 31.

Holding an off-cycle meeting two weeks in advance itself underlines the significance of the move at a time when the recent release of macroeconomic data for the first time revealed the damage wrought by COVID-19. In RBI's own words, "The macroeconomic impact of the pandemic is turning out to be more severe than initially anticipated". It added that the combined impact of demand compression and supply disruption will depress economic activity in the first half of the year.

Under these circumstances, and with further extension of the lock-down and continuing disruptions on account of COVID-19, the RBI decided to extend the three month moratorium on term loan installments by another three months. So borrowers can delay payment of their EMIs for the months of June, July and August. This extension would provide some relief to those facing difficulties in servicing their loans due to cash-flow and income disruptions.

While during this moratorium period, there would be no penalties or any impact credit score, however, this moratorium is not a waiver and interest would continue to accrue on the outstanding amount during this period. This interest can vary from 7 to 8 per cent per annum for home loans, to as high as 40 per cent for credit card outstanding. And with interest being charged on interest, a moratorium of six months, especially in case of a credit card loan, could substantially increase the debt.

Given these conditions, those with sufficient means should continue to make repayments as per their original repayment schedule while those who have severe cash-flow problems and are finding it extremely difficult to repay their loans could avail the moratorium facility during these six months. 

Vishay

HDFC Life's LFI Inches Up 8.7 Points Over 3 Years

As per the leading private life insurance company, HDFC Life in its latest findings for the FY2020, highlighted an 8.7 point increase in the Life Freedom Index (LFI) in comparison to 2016. The LFI was established by HDFC Life in 2011 as a barometer that enables the measurement of “Financial Freedom” of customers across four key segments - proud parents, wisdom investors, young aspirants and smart women. As per the insurance firm, the research driven approach to seek insights to understand the ever-changing customer needs, innovate through new offerings will enhance the overall customer experience.



The report details the findings in terms of behavioural changes in customer segments across different indices, in various locations. Some of the key insights from the report includes that young aspirants focus on short-term goals such as improving lifestyle (49 per cent), starting their own business (36 per cent). Whereas wisdom investors, who have invested in at least two financial products prioritise long-term goals such as child's future (74 per cent) and their own retirement (37 per cent) and health (44 per cent) planning.

For the smart women who have invested in at least one financial product they prioritise physical and mental fitness (50 per cent) along with their child's needs. **M**

Himali Patel



INVEST SMARTLY KEEPING A LONG TERM VIEW

The pandemic has highlighted that investment rules like asset allocation and diversification should be strictly followed

By Aparajita Gupta

The novel coronavirus (COVID-19) pandemic has made the world go on a roller coaster ride, impacting every aspect of life. After attacking human health, it has spread its tentacles on the global economic health and India is no alien to it. Even though Indian government has started lifting lockdown on industrial activities in a phased manner, it will take a long time for normalcy to return.

Investors have seen long accumulated profit getting wiped away within the blink of an eye. However, as people begin rebuilding their lost asset, they scout for various options. This is the right time to invest in stocks of good companies, which are now trading at dirt cheap prices. Even investing in Systematic Investment Plans (SIP) is a good option. And gold is always a safe haven when equity market is volatile.

However, every investment should be done for a longer period to yield better returns, even though the results of recovery could be visible only from the second half of the current fiscal 2020-21 (FY21).

The government has rolled out an economic package worth ₹20 lakh crore to provide necessary shots to various sectors. To revive economic activities through its Atmanirbhar Bharat Package the government has put much stress on the MSME, even by revising the definition of the sector.

The government's self-reliant package has focused on liquidity, land, labour and laws.

Needless to say, it took lot of liquidity measures like ₹3 lakh crore collateral free automatic loans for businesses, including MSMEs, ₹30,000 crore liquidity facility for non-banking finance companies/ housing finance companies/microfinance institutions and ₹45,000 crore Partial Credit Guarantee Scheme 2.0 for NBFC that would benefit

a lot of stocks directly and indirectly. "The first quarter of FY21 appears to be extremely challenging. I don't see the impact of lockdown abating until we have more relaxations and the virus situation is under control. For the full year, India may just eke out miniscule growth, led by a possible recovery in H2. We see growth to be under the two per cent mark, based on return to normalcy in the second quarter and subject to a transition towards reopening, by end of Q1FY21," says Rahul Jain, Head, Edelweiss Personal Wealth Advisory.

The pandemic-led lockdown has led to equity markets taking a severe hit. Traditional investors who typically invest in fixed income instruments such as bank deposits, bonds and debentures, have remained unscathed. The recent correction however, has once again highlighted, that investment rules like asset allocation and diversification, should be followed at all times.

Even government has drastically slashed interest rates for small savings scheme for the first quarter of 2020-21, which means popular small savings schemes like Public Provident Fund (PPF), National Savings Certificate (NSC) and Kisan Vikas Patra (KVP) would yield lesser return now.

The PPF interest rate was slashed by 80 basis points and will now give 7.1 per cent return, while NSC will give 6.8 per cent

RAHUL JAIN

Head, Edelweiss Personal Wealth Advisory

Growth to be under the 2 per cent mark, based on return to normalcy in the second quarter and reopening by end of Q1FY21



Things To Keep In Mind Before Investing In MFs

- a. Fund house pedigree
- b. History, qualification and experience of the fund manager
- c. Past track record and performance of the fund
- d. Quality of the portfolio: number of stocks, sectoral break-up, type of companies – large, mid or small cap. In case of debt funds, also check credit quality, credit ratings, average yield and maturity of the portfolio.
- e. Important ratios: Standard deviation, sharp ratio, information ratio, turnover ratio that can help with a comparative analysis

Source: Edelweiss

and KVP will give now 6.9 per cent returns. Thus the average earnings of a person from various investments has already come down drastically.

“There is no doubt that equity investors followed by mutual fund investors with exposure to equity mutual funds would have faced massive losses. But one should keep in mind that if the investor has a long-term horizon of around five to 10 years, the Indian economy will definitely bounce back and the investor should instead utilise the opportunity to balance out the asset allocation which includes equity, debt and gold,” says Vijay Kuppa, Co-Founder, Orowealth.

In terms of returns, exposure to equity would have led to around 25 per cent decline compared to mutual funds wherein the losses would be around 15 per cent. Traditional instruments like fixed deposits would always prove safest, offering around 5.5 to 6 per cent returns. However, one must maintain that



VIJAY KUPPA

Co-Founder, Orowealth

A long-term investor should balance the asset allocation which includes a portion of equity, debt and gold

inflation has a significant impact and therefore equity as an asset class can beat inflation over a period of seven to 10 years.

He adds that Indian economy will be facing massive headwinds in terms of job losses, decline in manufacturing activity followed by impact on GST collections, migrant labour issue, which may lead to shortage of labour in core industries like construction and automobiles. India may take around six to nine months as the lockdown is relaxed followed by gradual recovery in economic activity in terms of manufacturing and rise in consumption.

Raj Khosla, Founder and MD, MyMoneyMantra.com says the impact of the lockdown and the widespread job losses will continue to haunt the economy for several quarters if not years. Even before COVID-19, the economy was facing a structural slowdown. Now that demand and production have fallen off the cliff, the coming quarters are likely to see a protracted slowdown.

The recent pull-back of six debt funds by Franklin Templeton has investors shying away from the debt market. “Real estate has been a stressed sector for a while now making it unattractive as well. This leaves equity as a viable investment for investors to gain, considering its sharp fall and irresistible prices,” feels Tarun Birani, CEO, TBNG Capital Advisors.

Then which are the investment tools one should look at to multiply money?

“Any asset, which is under-performing long-term average, should be preferred as it offers better returns compared to current favoured assets that are already at high levels. Interestingly equity has underperformed fixed income from last three to five years, which gives me confidence that equity offers best return potential among all assets, provided it fits in suitability and risk reward assessment of the investor,” he says.

“Unfortunately, it is rare that investors are able to get the timing right to take advantage of the windfall, which makes a lump sum investment an attractive deal. Since times are uncertain and none of us can confidently predict the bottom of this fall, the best strategy right now is to stagger your investments in an incremental manner over a certain period. Keep your risk appetite in check and invest



with a long term view to gains,” he adds.

Jain says, investors should review their investment portfolio in consultation with their wealth advisor or a financial expert. Portfolios must be restructured to align with optimal asset allocation based on age, risk profile, investment horizon and expected returns. Fundamentally sound stocks and mutual funds, although temporarily underperforming, should be held on to. Laggards and underperformers should be replaced with stocks that can be potential outperformers, in the future. Most importantly, lessons should be learnt from past mistakes and the investment rules of asset allocation should be stringently adhered to.

It is known, that equity has the power to create wealth in the long term. Hence building a strong market portfolio of robust stocks, will help reap benefits, despite the current crisis. Investments in well managed, diversified equity funds with proven track records, through the SIP mode, will surely help.

Kuppa suggests investors to continue with their respective SIP as it provides an opportunity to average out the cost of holdings.

But with the Franklin Templeton incident people have lost trust on mutual funds.

RAJ KHOSLA

Founder and MD, MyMoneyMantra.com

The impact of the lockdown and the widespread job losses will continue to haunt the economy for several quarters



Experts say it is not fair to generalise. There are a lot of funds which have stood the test of time and created wealth for investors. Investors, on their part, should do thorough research, prior to investing.

However, Kuppa accepts Franklin Templeton incident has definitely shaken investor confidence, which can be seen in terms of redemption pressure in debt funds of different AMC's including Franklin. An

Heading Space asdfasdf

Nifty 50	Mutual Funds		
	Largecap	Midcap	Smallcap
-21%	-17%	-15%	-24%

Source: Edelweiss ; Returns: 1-yr as on May 5, 2020



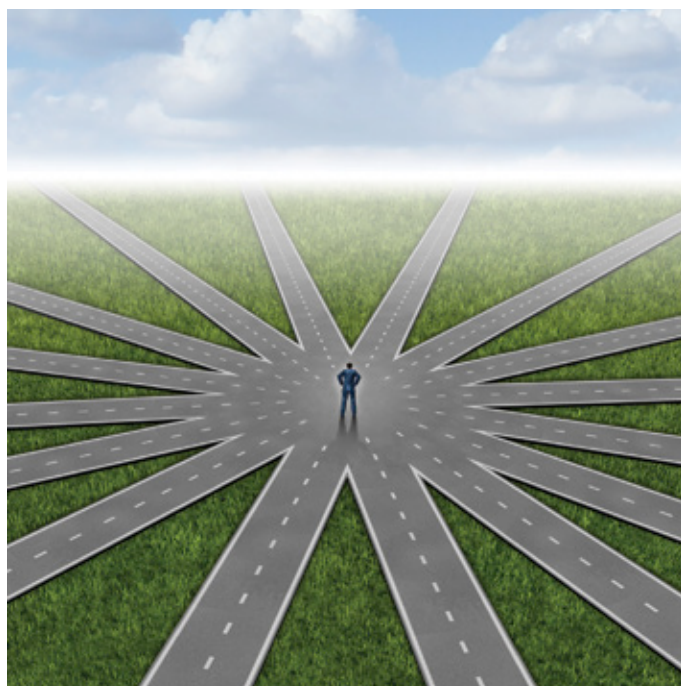
TARUN BIRANI

CEO, TBNG Capital Advisors

Any asset, which is under-performing long-term average, should be preferred as it offers better returns

investor should always watch out for the underlying securities held by the respective schemes, which can range from corporate bonds, government papers and will give a fair idea on the safety aspect. Debt funds with good quality commercial papers would not face major issues in terms of redemptions.

“Also, we would suggest diversifying the portfolios across asset classes – equity, debt and gold, which will assist in hedging the portfolio during the market downturn. Exposure to gold and debt will always help in capital protection during a slowdown or recession. Investments such as Sovereign Gold Bonds, indirect equity exposure via mutual funds, bonds should be considered as dynamic asset allocation and become very important during times of slowdown. An individual should always take a long-term view on investment, which usually should



be around seven to 10 years considering the compounding effect of equity over a period of time and this will assist in creation of wealth,” Kuppa adds.

Hence the key to successful investment is patience. Any hasty step can lead to a loss.

Investor confidence will be restored based on how quickly the economy recovers. The government is also taking proactive measures to tackle the situation. It will have to maintain a fine balance in terms of how quickly the lockdown can be lifted and the spread of the disease can be controlled. Easing lockdown may lift the economy for the time being but holds a greater risk of further spread of the virus, which is already on an abysmal rise. The government needs to watch very carefully.

How much time will it take for investors to regain their losses after COVID-19 spread is seen reducing in India?

“Changing business dynamics and alteration to consumer preferences, could cause an upheaval in how different sectors command valuations and contribute to earnings. This would be key for the markets to recoup losses. In the past, markets have taken several quarters and sometimes years, to recoup losses, post a crisis. So, expect a gradual return to normalcy,” says Jain.

Apart from the ₹20 lakh crore stimulus, what other things can the government do to make the economy roll?

Khosla suggests, “Due to COVID-19, revenue collection has come to a standstill while expenses are shooting up. So a tax cut is out of the question. Even so, some tinkering with the Long-Term Capital Gains Tax (LTCG) could boost investor sentiment. For instance, raising the threshold for tax on LTCG from Rs 1 lakh to ₹5 lakh will be a welcome move.”

Now that the country is in the fourth phase of lockdown, it is no longer bothered about survival in lockdown, rather it is looking forward to the reopening formula. People have now come to terms with the fact that the world has to co-exist with the virus for the time being and we cannot just lock ourselves up and let our fortunes get washed away due to the fear of a fatal disease. Yes, it is a deadly virus and we have to be cautious of but at the same time we have to start living. We should not hold back our investment decisions. ■

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RAAMDEO AGRAWAL

Have The Vision, Courage And Patience

How to handle ongoing stock market crashes amid lockdown

“Unless you can watch your stock holding decline by 50 per cent without becoming panic-stricken, you should not be in the stock market.” – Warren Buffett

Warren Buffett's above words have proved relevant at the market level at least twice so far this millennium. And we may well be in the midst of the third.

The first time was the dotcom bust followed by 9/11 – from 1,700 levels in February 2000, the Nifty crashed 51% to 850 levels around Oct-2001. The second time was the 2008-09 global financial crisis – from nearly 6,300 in early 2008, the Nifty crashed 59 per cent to 2,600 levels by March 2009. We may well be in the middle of a third such decadal cleansing of the market – from a high of 12,300 in Jan 2020, Nifty collapsed 38 per cent to 7,600 levels in just over two months, before recovering somewhat.

The key question – how should investors handle such stock market crashes?

Back to basics

Stock market crashes are best handled by getting back to the basics of long-term investing. In his classic book,

100 to 1 in the Stock Market, Thomas Phelps has said, “To make money in stocks, you must have vision to see, courage to buy and patience to hold. Patience is the rarest of the three.”

Vision to see

This is the first and most critical step of long-term investing. Stock market crashes are marked by a high level of noise about the present and the near-term future. This is where a clear vision of the long term future proves handy. Such vision to see comes from the long-period India story, what I call the Next Trillion Dollar (NTD) opportunity.

It took India almost 60 years to clock its first trillion dollar of GDP in FY08. After that, given the power of compounding, the second trillion dollar of GDP came in just seven years. Every NTD

of India's GDP is expected to come in successively shorter periods. This linear growth in GDP spells exponential opportunity for several businesses run by managements with integrity, competence and a growth mindset.

Courage to buy

Warren Buffett has famously said, “Be fearful when others are greedy and greedy when others are fearful”. The courage to buy when the whole world is fearfully selling actually arises from the above vision to see itself. Past experience also suggests that following a sharp correction, most sound companies bounce back with a vengeance across sectors.

Patience to hold

As Thomas Phelps's quote itself says, patience to hold is the rarest of the three attributes. During market crashes, it is very difficult to catch the bottom. Investors may see a further fall in the stock prices after they have bought, testing investors' patience. Only those investors will emerge successful from market crashes who have full conviction in their vision and high level of patience to see it become a reality.

In conclusion

The Corona virus pandemic has triggered a crash in stock markets worldwide. In India, it threatens to be the third 50% fall since the turn of the millennium. Each time, the trigger is different but the final outcome is broadly the same – the fall is sharp but short-lived, and post the recovery, investors enjoy a great run of the “bottom-to-next-top” cycle.

Expect the Corona-led lock-down to disrupt Q1 of FY21 at most. However, post that, multi-year low prices of crude should help lead the recovery in GDP and corporate sector profits. The time is ripe to invest in “wonderful” companies i.e. great businesses (preferably consumer-facing) run by great managements.

Investors who stay put through this crisis and in fact have the gumption to take advantage through staggered allocation over the next three to four months stand to benefit. ■

Linear growth in GDP spells huge opportunity for businesses

– The author is Chairman, Motilal Oswal Financial Services

New World Order Post COVID-19

Everything we do is going for a transformation that was never envisaged before

By Anagh Pal

Let us accept it. The COVID-19 pandemic is one of the most significant events of this century, with far reaching consequences. It is being compared to the two world wars and to the great depression, but the last time the entire world went through something like this was 100 years ago during the Spanish Flu pandemic.

Nobody is sure how the coronavirus pandemic will end, whether it will go away, whether a vaccine is discovered or whether we have to learn to live with this for the next few months or more.

Says Sailesh Shah, Co-founder, Strta Consulting, "Like every part of the world, India is sitting on a fence that has COVID-19 on one side and economic activity stagnating on the other. That fine balance is critical as WHO is now stating that we may not be able to eradicate the virus any time soon."

One thing is for sure. Our lives will change. And a lot of that change will be in our financial lives. "The COVID-19 pandemic is likely to leave a permanent imprint on consumers, countries and economies. There will be a 'new normal' for every aspect of our lives - be it business, personal or social," says Prateek Mehta, Co-founder, Scripbox.

With social distancing norms in place, technology will play a bigger role in our financial lives. That is not to say that it was not already, but it will become a more intrinsic part of our financial lives and businesses that do not adopt will perish.

A McKinsey study reports that we have vaulted five years forward in consumer and business digital adoption in a matter of around eight weeks. "As people become cautious in their dealings in the physical world, they will increasingly lean on digital solutions to meet their existing demands - related to financial planning and investments. Today, every part of the investment journey - from asset allocation decisions to transactions - is seamless on digital. We expect this trend to only accelerate from hereon. We would also see that a lot of offline players will make the move to digital and touchless delivery of investment advisory



services,” adds Mehta. Once the pandemic subsides, a ‘new normal’, with irrevocably changed behaviors and expectations of customers, may emerge. This will present a unique opportunity for FinTechs to bring end-to-end digitalisation to the creation and distribution of financial products. “Once the lockdown is lifted, Fintechs in neo-banking, lending and Investment segments, aided by favorable regulatory initiatives such as video KYC, account aggregators, MSME marketplaces, e-invoicing, may extend accelerated adoption of digital financial products among both retail and SME/MSME customers,” says Vivek Belgavi, Partner and Leader FinTech, PwC India.

Banking has been one of the earlier adopters of technology and in a post pandemic world, the way we bank is likely to change even further. “Customers will need to fulfil a range of banking transactions on a no-contact basis, completely digital without having to visit a branch. In this respect, banks will need to bring more and more services on to digital channels,” says Deepak Sharma, President & Chief Digital Officer, Kotak Mahindra Bank, which is the first to introduce a video KYC to open a full-service Kotak 811 account. IDFC Bank has also launched video KYC for opening of savings account. Going ahead, there will be increased usage of video conferencing as an alternative to physical interactions.

When it comes to investments, most of it is digital and the technology adoption is going to accelerate going ahead. According to Mehta, we are likely to see technology in all aspects of investing whether it is discovery, decision making, execution, operational support and ongoing management.

Not only will the way we invest change, there will also be a change on how people view investments “After the pandemic there will be a change in the way people think. They will go back to saving more because they realise that such emergency situations may come. In the last 12 years or so we have moved from a high saving nation to a high spending nation. I expect that to change,” says Prakash Gagani, CEO, 5paisa.com.

This change in mindset of people with the lockdown plunging the economy in a crisis and expected salary cuts and job loss, will lead to a change in spending patterns and

The New Normal

1. **Accelerated use of digital technologies for all financial transactions**
2. **FinTech to replace physical interactions as much as possible**
3. **Increase of awareness on health insurance**
4. **Video conferencing to replace physical KYC**
5. **Tele-underwriting to replace health tests for insurance**
6. **Financial advisory to be virtual and video-based**
7. **Virtual tours to enable homebuyers to search and view property**
8. **Work from home to continue for a while. Employers to focus more on health and well being of their employees**
9. **Essential travel to resume soon, international travel later**
10. **Strict checks and social distancing at airports and in flights**

also why people take loans. In fact, as per a recent study conducted by BCG, 86 per cent of the respondents have shown concern over repayment of loans after the lockdown opens, which is a very high number.

“Due to the volatility of the employment scenario and the fear of job losses, consumers will postpone the purchase of not so essential items. We feel that this trend will last for entire 2020. New consumer durables purchases are likely to see a drop, at the same time the personal loans will be largely to meet the necessary like meeting the survival needs, medical needs, education and so on,” says Marko Carevic, Chief Marketing and Customer Experience Officer of Home Credit India.

Of course, technology will play a big role in loan disbursal as well. “Physical verification

PRIYANK PARAKH

Director-HR, GSK Consumer Healthcare

Sanitising workspaces, maintaining social distancing norms are going to gain a predominance





of borrowers at their residence and office is now replaced by e-verification where location mapping is done through geo-tagging, selfie and video interviews. Most of these processes are time and cost saving and we see no reason not to continue with them even in the post COVID-19 era,” says Rajat Gandhi, founder and CEO, Faircent.

The need for insurance and how we buy insurance will also see a significant change in a post coronavirus world. Says Vaidyanathan Ramani, head, product and innovation, policybazaar.com, “Customers will not be comfortable to walk into an insurance office or have some agent visit them. They will be comfortable to transact over calls, emails, apps and webpages.”

Naturally, people are more concerned about their health now and so the demand for health insurance is likely to go up. According to Prasun Sikdar, MD and CEO ManipalCigna Health Insurance Company, post pandemic the health

insurance industry will focus on educating people about the importance of health insurance through various online and offline touch points. The company has already introduced digital services - for instance, policy holders can upload scanned claim documents using their app or by logging on the claims centre to initiate claim reimbursement. Customers can hence renew policies, generate claim status and buy health insurance policies from the comfort of their homes. Tele-underwriting where underwriting decisions are made based on a telephone interview to gather information related to risk is also becoming a norm.

“Even after the pandemic is over some of the habits we are creating will remain. Digital adoption will become more in vogue and replace many of the traditional sales channels like agents. Customers are also less dependent on human intervention and purchasing policies online,” says Dr. S. Prakash, MD, Star Health and Allied Insurance.

Financial advisory is also likely to change in a post-COVID-19 world. Says Renu Maheshwari, “Businesses that were on cloud could handle the lockdown more productively. It also gave them an opportunity to nudge the investor to come online. Post COVID, most cloud based practices will continue. They are efficient, cost effective and give better output.” Also, as Maheshwari points out, financial advisory will change from actions directed towards chasing market returns to fulfilling investor’s financial goals by choosing the most appropriate returns with focus on client’s



PRAKASH GAGDANI
CEO, 5paisa.com

In the last 12 years we have moved from a high saving nation to a high spending nation. I expect that to change

life goals instead of focus on choice of products.

When it comes to homebuying technology will play a prominent role too. Virtual tours that augment the real estate experience will become more popular as a result of social distancing and help potential homebuyers continue their searches for property in a digital manner. Going ahead one can expect homebuying not to be a series of discreet activities. "Rather we can expect one app where the entire ecosystem of the builder, financier, interior designer, furniture companies and e-commerce sites will collaborate in offering what is required to build a home," says Sundaram Mallik, Marketing Head, PTC Inc.

The lockdown has meant that many of us are now working from home and since the virus is going to stay, work from home is likely to become the new norm. Our workplaces are also going to change. "Sanitising workspaces, maintaining social distancing norms, being able to operate remotely and being relevant and productive are some of them that are going to gain a predominance in the upcoming times," says Priyank Parakh, Director-HR, GSK Consumer Healthcare. Additionally, you can expect the employer to engage with the employees regularly to boost their morale. GSK Consumer Healthcare has implemented e-engagement activities like creativity contests, learning marathon and desktop yoga, which is a platform for live yoga sessions for all employees. They have also launched an Employee Assistance Program (EAP) that helps access to a free, confidential telephone helpline and website for practical advice, information or support.

Finally, COVID-19 has changed how we will travel not just for now, for months to come. Forget planning for a summer holiday, we have not even left our homes in a long time. Will travelling ever be the same again?



PRATEEK MEHTA

Co-founder, Scripbox

The pandemic is likely to leave a permanent imprint on consumers, countries and economies



Says Neerja Bhatia, Vice President, Indian Sub-continent, Etihad Airways, "The current pandemic will surely change air travel, keeping in mind the safety of all passengers as well as the airline and airport staff members. These changes won't just be inside the aircraft, but at every step right from the moment you enter an airport. These would include stricter measures at check-in counters, thermal screening at airports and advance booking and social distancing in flights by keeping the middle seat free when guests are travelling on separate bookings. Agrees Nishant Patti, CEO and co-founder, EaseMyTrip.com, "Strict social distancing norms would be followed at all times via floor markings and queue managers will ensure the it is being followed across – at entry gate, check-in counters, self-check-in kiosks, security checkpoints, and the boarding area. Seating arrangements at the food court, lounges, terminal building and departure terminals are also expected to be reshuffled in a manner that promotes social distancing. Cashless transactions will be promoted across all restaurants and retail stores. Passengers will be encouraged to wear masks and sanitise their hands at regular intervals." In-flight meals are also likely to be suspended till the situation normalises. Considering all these factors airfares are expected to increase to compensate for lower revenues and increased costs, unless the government announces some relief for the sector. Overall Patti believes that the travel sector will take a considerable time to return to regular levels. For the first three months people will only travel for essential reasons relating to work and education. Leisure travel is likely to pick up next with clear preference towards domestic destinations. The international destinations will start attracting crowds only when a vaccine is developed or things are totally back to normal.

The way we earn, invest, spend, travel is going for a transformation that was never envisaged even six months ago. A brave new world awaits us. ■

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Bleak Expectations Of A Revival

Is Prime Minister Narendra Modi's Atmanirbhar Bharat package a baggage for the stakeholders?

By **Yagnesh Kansara & Arindam Mukherjee**

As expected, India's fourth quarter Gross Domestic Product (GDP) has slowed down to 3.1 per cent, lowest in last 11 years, data released on the last Friday of month revealed. This number fully reflects the slowdown, which the economy has been going through in the last two years and it also amply highlights the importance of a demand-led recovery for sustainable future growth. This number is more important than a quarterly number. Because this number would be the base against which the impact of the lockdown and consequent demand destruction, loss of productivity and employment would be mapped. What could be the fall from this level is the question that would be asked.

In this backdrop, we need to dissect the much talked about "Atmanirbhar Bharat" package worth ₹20 lakh crore announced by

Prime Minister Narendra Modi on May 12 and need to do thread-bare analysis of its adequacy and relevancy.

Commenting on Q4 GDP numbers, Upasna Bhardwaj, Senior Economist, Kotak Mahindra Bank, says, "The number partly reflects the sudden halt in economic activity led by the COVID-19-related response. While the slowdown in economy was already underway, the COVID-19-related disruption has further exacerbated the issue. We expect the Q1FY21 to record a sharp contraction of over 14 per cent, with only a gradual recovery thereafter. For the year, we continue to expect contraction in GDP (over 5 per cent). Accordingly, expansionary fiscal and monetary response will have to continue to aid the economy."

If the expansionary fiscal and monetary response have to continue from policymakers, through the year, do we have that economic and financial might-to-fight-out the after



effects of COVID-19? Looking at the PM's Atmanirbhar Bharat package, and the lack of enthusiasm post the announcement, the going seems to be difficult.

The Atmanirbhar package is comprised of measures amounting to 4 per cent of GDP, which has been undertaken by the Reserve Bank of India (RBI). The direct fiscal impact of the reforms however comes to around ₹2 lakh crore only (1 per cent of GDP). The measures announced have been a mix of short and long term, with focus on building the capabilities for small players in the economy as well as paving the way for structural changes in certain sectors. However, the package does not do much to boost consumption in the short term and that could act as a drag on growth.

But has the massive economic package come at the right time and will it have the desired impact?

Devang Mehta, Director, Equities, Centrum Wealth Management says, "The government will probably be looking to address, a number of challenges, faced by a host of sectors, at an appropriate time. Once the lockdown ends, the exact extent of monetary and business pain would be known. While some sections of the population are yet to receive relief, we must understand that no one knows for sure when the pandemic will end and economic operations will fully return. However the timing to address these issues has to be apt and it cannot be too little and too late. Structural reforms for land, labour, law and liquidity are clearly the need of the hour. The government seems to be conserving resources at its disposal to be ready to invest more at a later appropriate time."

Soumya Kanti Ghosh, Group Chief Economic Adviser, SBI, explains, "We estimate that the revenue loss for the Centre after taking into account of gains from excise duty hike and DA freeze comes to around ₹6.53 lakh crore. However, the government has announced additional borrowing of ₹4.20 lakh crore for FY21. As per our estimates, a total of ₹4.36 lakh crore is still the uncovered loss for the Centre even after the additional borrowing."

Ghosh says, interestingly, this is nearly equivalent to Budgeted Capital Expenditure (CE) of the Centre, implying almost negligible growth in CE in FY21. "We are thus less



hopeful of recovery in current fiscal and our GDP numbers could now have a downward bias from current stress estimate of -4.7 per cent in FY21," he concludes.

But will the package address the demand side problems which have assumed a global nature with the COVID-9 crisis?

Mehta strongly feels that the government's package focuses mainly on supply-side reforms and relief measures. The underlying issue is of demand destruction and joblessness and that still stands to be addressed. The demand side needs immediate support, as an estimated 70 per cent of India's economic growth since liberalisation has been powered by domestic consumption. There is a clear case of loss of business and hence a big setback for incomes, salaries and wages.

Vijay Kuppa, Co-Founder OroWealth, argues, "Majority of the support is in the form of long term instruments like loans and credit guarantees and not much in the form of direct cash benefits or reduction of tax rates. Now whether the government should do more or not, will only be known once these announced measures step off the ground. At the moment,

UPASNA BHARDWAJ

Senior Economist, Kotak Mahindra Bank

We expect Q1FY21 to record a sharp contraction of over 14 per cent, with only a gradual recovery





DEVANG MEHTA

Director, Equities, Centrum Wealth Management

Various structural reforms for land, labour, law and liquidity are clearly the need of the hour in this situation

the prelim assessment is that they will fall short in reviving the economy. What is needed is a massive short term power booster. Unfortunately, we don't have the finances for it, and the government knows this too."

Economists however, feel that in handling the situation, the government may have had its own limitations.

Says Abheek Barua, Chief Economist, HDFC Bank, "If by capability you mean fiscal resources, then the government certainly has constraints. Thus large cash transfers or large scale direct support to badly affected sectors might not be possible. Even with a relatively small additional fiscal outlay, deficit is likely to climb to 6 per cent of GDP because of revenue losses."

Besides, the government wants to be cautious and keep the fiscal powder dry should the infection itself come substantially worse and a lot more needs to be spent on healthcare. It has tried to innovate and focus on keeping the supply side ticking by ensuring the flow of credit to the economy, Barua says.

The government, he says, has done this by acting as a super-guarantor for a large swathe of loans particularly to MSMEs and NBFCs. This will help companies especially the smaller ones to survive and operate. This could set off a virtuous cycle of production, employment, income and finally demand. "This was needed but can it entirely compensate for the absence of demand side measures? Perhaps not and if the economic situation improves and there is a better sense of possible revenue and additional healthcare needs, the government will have to consider demand side measures, says Barua.

Barua, however, feels this is a good opportunity to push with pending reforms and address many issues in the economy. He says, "The history of India's political economy shows that crises are the best opportunities to push through long pending reforms and so the timing is right. I do not believe that the desired

effect is to boost the economy immediately but rather to ensure that India, in the medium term, is in a position to benefit from shifts in the global supply chain that will invariably follow, (particularly with reduced dependence on China). It is also a strong positive signal to the broader global community that we are taking both short-term measures as well as long-term ones to prepare for a post-COVID new normal."

Says Lav Chaturvedi, ED & CEO, Reliance Securities, "We still believe that India is placed better compared to other countries in various parameters. For instance, our government debt to GDP stands at 69.6 per cent, which is far below countries like USA, Japan, France, UK, and Brazil. Our fiscal deficit at 3.8 per cent in FY20 is significantly lower than 6.6 per cent which was seen during the global financial crisis and more importantly we have strong back up of our Central bank which maintains a robust balance sheet.

It is true that the slowdown began across the world even before the COVID-19 crisis properly set in globally and hence many governments had already started announcing their fiscal stimulus packages.

Mehta clarifies, "The RBI had also been proactive not only in cutting rates but also in infusing liquidity and announcing some important unconventional measures. Government's current package of ₹20 lakh crore focuses largely on supply-side reforms and relief measures. It can now do more to increase disposable income in the hands of the middle class and taxpayers to drive consumption. But before the government proceeds on the path to increase the disposable income in the hands of middle class, the interim



period is going to be of severe stress for the banking sector.

Certain provisions of Atmanirbhar Bharat package related to the banks and financial sector will make the situation for the sector from bad to worse. The listed banks will suffer the most, claimed Emkay Global Financial Services in one of its research note on listed banks.

It says the Insolvency and Bankruptcy Code (IBC) referral suspension for one year will be a major set-back for banks as the code assisted banks to recover ₹1.84 lakh crore since its inception (44 per cent of loans due) and instilled fear in the minds of belligerent corporates, unlike earlier mechanisms. In view of COVID-19-induced disruptions, the government suspended of filing of fresh cases for insolvency proceedings under the IBC for the next 12 months.

“We believe that this will be a setback for banks looking for resolution/liquidation under the legal umbrella, with no risk of witch-hunting later on and more so, when another wave of corporate NPAs could be on its way. With little help from economic package focused on long term reforms, banks have to defend themselves from asset quality storm. The first order of asset quality impact of COVID-19 will be seen in retail/SME, followed by another wave of corporate NPAs with demand for moratorium extension/ forbearance/restructuring on the rise amid extended lockdown”, Emkay’s report says.

It also recommended staying with select banks with strong capital/provisioning buffers and healthy core profitability to absorb COVID-19-induced shocks.

The markets have been extremely volatile but have shown some resilience of late, with the Sensex staying above the 30,000 mark. But who will take a call on where we will see them in the next six months?

Chaturvedi says, “Equity markets do not like uncertainty and as long as uncertain environment persists, markets may take bit longer to reward investors. However, given the ease of lockdown across the globe and resuming economic activities offered a required boost of equities despite concerns related to second wave of coronavirus and escalation of USA-China stand-off. The good part of Indian markets as of now is our valuations at 21.7 xs, which appears to be



attractive. Hence, going forward with further ease in lockdown restriction especially in red zone areas should essentially offer more clarity about earnings momentum, which will augur well for the market”.

Kuppa feels that the markets may correct further going ahead as the full extent of damage due to lockdown will be seen in the corporate quarterly results in July and October. “We may not see the sharp declines as seen in March where the indices had hit a low. The government may take further relief measures which will lead to market consolidation. Additionally, we will need to watch out on the global market developments which will decide on the Foreign Institutional Investor (FII) flows. Due to historic liquidity measures taken by different countries and central banks, stock markets will remain up despite negative real economies. And if global indices remain up, Indian markets will stay up too,” he says.

Thus, the government’s ‘Atmanirbhar’ package, elaborated by Finance Minister over the last five days at the fag end of the first fortnight of May, was a mix of many easy loan schemes, a slew of long-awaited policy reforms across sectors and a little bit of actual money spent by the government (₹2 lakh crore or 102 bps of GDP hit in FY21). The ‘10 per cent of GDP stimulus’ as claimed and the reform announcements, are worth grabbing international headlines. The overall package is a disappointment for expectations of a revival of demand in the economy, and for sectors that are stressed due to the lockdown. ■

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Digital Payments And The New Normal

COVID-19 has given further push to adoption of digital tools, avoiding handling of cash

By Vishav

There is no doubt that the global pandemic and the ensuing lockdown has crippled economies and changed the way people lead their lives. While the number of transactions have reduced drastically during this time, the way these transactions happen has also undergone a sea change. This leads to the question whether digital transactions are going to become the new normal post-COVID.

Many experts believe that while digital payments were already on a rise before the pandemic, the health crisis has given further push to people adopting digital tools to avoid handling of cash. It has also resulted in fewer possibilities to deal in cash. However, there is still a large segment, which relies on cash amid all this and many believe that cash would continue to remain the backbone of the Indian economy for a long time to come.

However, there is agreement on one thing:



AMIT NIGAM

Executive Director and COO, Bankit

While a portion of the population has adopted digital payment services, there are many who still prefer cash only

that once the recovery starts, there is going to be a new normal across the board and digital payments space is going to be no different. According to 'India Digital Payments Report - Q1 2020', issued by Worldline India, social distancing is going to influence, to some extent, how the landscape of digital payments will pan out particularly in the physical space, given it is a high contact area.

While the COVID-19 pandemic has impacted businesses across verticals and has upended daily life, the cash flow cannot be halted because of the virus outbreak or the subsequent lockdowns. This has resulted in increased adoption of digital payment solutions at an unimaginable pace throughout the country, says Rohit Kumar, CEO and CMD, Xpay.life.

"Digital payment platforms are flourishing with the rise in adoption. The RBI, National Payment Corporation of India (NPCI), along with government bodies, banks, financial institutions, and regulatory authorities, are already teaming up to quicken the process of digital payment adoption in the country. Though different economies are at different stages across the world, the COVID-19 has definitely cleared the road for digital payment methods in India," he says.

The shift towards digital payments in India is particularly striking when the evolution of consumer behaviour can be seen among different segments, including older consumers who have traditionally preferred cash for transactions. According to a recent study by Capgemini, 80 per cent of consumers in India in the age group of 50 to 60 years will use digital payment methods

the most, followed by the age group of 36-45 years at 83 per cent. XPay.Life, which simplifies payment for utility bills among tier-two, three, four and five consumers, has seen a surge of 500 per cent in recurring utility bill payment through its app, Kumar adds.

“The transition to a fully digital India cannot happen overnight, but we can certainly say that digital payment solutions are here to stay,” he says.

According to Nityanand Sharma, CEO and Co-founder, Simpl Technologies, COVID-19 has forced people change the way they used to transact and pay for their day to day essentials. Many first-time users have started using digital payments during this lockdown as the entire paradigm has shifted from offline to online.

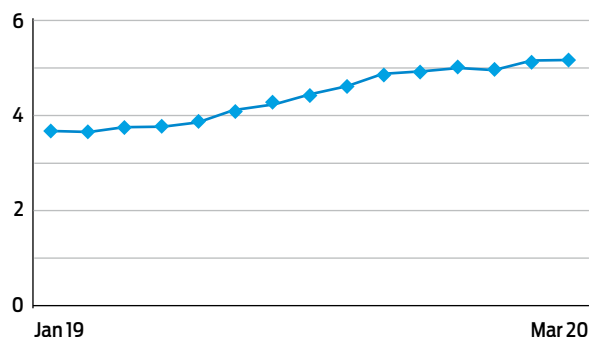
“We would see a surge in the overall adoption of digital modes of payment across industries. Users are ordering their essentials from hyperlocal merchants like Dunzo, Bigbasket and this is generating a major dependence on digital payments as users are now making transactions through their cards, UPI apps, and net banking instead of relying on cash transactions. Due to the current situation, businesses and merchants are trying digital payment platforms like eWallets, UPI-based apps and net banking. This is leading to a sharp jump in the number of digital payment users,” he explains.

Sharma adds that the depth and extent of the impact of COVID-19 crisis on the entire digital payments industry are difficult to gauge right now but in the long term, it is likely to accelerate the adoption of digital payments across the country.

“This pandemic has changed the world fundamentally, and it will take a couple of months to get back to a normal life. Once the lockdown is over, there would still be a risk for the second wave of coronavirus and this fear will drive people to opt online commerce rather than offline. Most of the transactions in India used to happen via cash but this trend had changed post demonetisation as digital transactions in India registered 19.5 per cent in value in 2018-19 as per the RBI report. Apart from being contactless which is crucial in a time like this, digital payments are also safe and secure with a better user experience,” he explains.

Many believe that demonetisation marked the beginning of a new era for the digital

POS Terminals (Million)



payments industry in India with a sharp uptick in the adoption of e-banking, mobile banking, and most importantly UPI-based payment apps. While the current situation is very different, the pandemic will certainly serve as a growth catalyst for digital payment platforms, feels Varun Sridhar, Lead, Realme PaySa.

“Fundamentally, many people have lived life for two odd months without going to an ATM or meeting someone in person. Today, person to person payments have hit a new normal with UPI payments. When lockdown ends, even shopping with social distancing using QR codes will be the new normal. The new normal in urban India will be on an average one ATM withdrawal per person per month, thinner wallets with Rs 2000 note kept as backup and around 20 mobile payments per month per person, 50 per cent of them using a QR code,” he says.

Sridhar adds that while studies are yet to establish the fact that coronavirus can be transmitted via paper currency, the general consensus among experts is that avoiding cash and consequently contact is a good idea right now. “Money changes hands very frequently. The fear





ROHIT KUMAR
CEO and CMD, Xpay.life

The RBI, NPCI, government bodies, financial institutions are quickening the process of digital payment adoption

of catching coronavirus from handling cash is undoubtedly leading to more number of digital transactions in India and worldwide.”

Bala Parthasarathy, Co-founder and CEO, MoneyTap, agrees and adds that as we navigate through the post-pandemic world of lockdowns, digital transactions have once again taken centre stage.

“I think this pandemic will bring an overall shift in our behaviour. We have already become more conscious about hygiene and physical distancing. Avoiding touching dirty surfaces and minimising physical contacts are the new normal. And when such a mass behaviour shift happens, old methods of day-to-day transactions can’t keep up. Once the economy reopens, there will be a further push for contactless payments instead of cash exchanging hands, due to possible concerns about the virus. Digital payments will continue to grow as the economy rebounds,” he explains.

Apart from the virus scare, cash transactions have also become negligible because nearly all financial transactions have come to a halt during the lockdown. Most of us are inside our homes, and digital payment is the only convenient option that we have.

“This is a positive sign for digital adoption, as we are also getting used to using our phones

to pay for everything. I’m sure we’ll continue using digital methods even after the lockdown,” Parthasarathy says.

However, despite the rise in digital transactions during the demonetisation, we saw cash transactions again gaining the lost ground during the following years. According to Amit Nigam, Executive Director and COO, Bankit, cash always comes out as king. With migrants now being able to go back to their hometowns, the need for cash has seen a growth spurt, because once back home, they would need cash for daily purchases, he feels.

“India is a very diverse country in terms of demography and geography wherein everyone prefers cash. While a certain portion of the population has adopted digital payment services, there are many who still prefer and are comfortable with cash only. Still a larger population is not self-sufficient to use the digital payment methods. Even today, in the hinterlands of the country, there are towns and villages where banking facilities are limited. That is why cash out services in the rural and semi urban areas have seen a spike in this period and which will continue to remain, considering cash being the backbone of our monetary system,” Nigam explains.

He adds that even though digital payments are gaining momentum, cash business is also growing because most of the people in the country still rely on cash and love the touch and feel of money as a note.

“Hence, we have not seen any decline in the cash transactions. However, in the first phase of the pandemic, people were apprehensive about using cash to avoid the spread of the virus. But then the need to transact took over and cash came back to becoming the king. In this period, even vendors have been persistent about using cash as well, because the same has to be used across the value chain – transportation, wholesalers, vegetable farmers etc,” he explains adding that his company has seen 10x hike in cash-out business through Aadhaar Enabled Payment System (AePS) and MiniATMs since April 2020.

But according to most, the ever-evolving technology will make the future entirely digital and while cash transactions might still be part of the economy, digital payments will dominate the future. ■

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Invest for Guaranteed Happiness

“It’s not how much money you make, but how much money you keep, how hard it works for you, and how many generations you keep it for.” Simply put, it does not matter how much money you earn. What matters most is what you do with that money. The reason why most people spend a reasonable part of their lives working for their money is to ensure that they are able to achieve their financial goals and secure a comfortable living for themselves in their retirement phase. Many of you may have already started putting some money aside to create a comfortable nest egg for your retirement. However, have you ever given any thought to what would happen if you outlive your retirement fund? Due to better medicare and also increased awareness about maintaining a healthy lifestyle, life expectancy in India has been increasing over the last many years and is currently 69.73 years. There is every indication that this will increase further in the coming years. While longevity is definitely something to cheer about, living a part of your retirement years in penury is not.

Keep the meter running

You need to make investment decisions that over the long-term generate a happiness annuity in your retirement years i.e., they can generate enough returns to last you your lifetime. Fortunately, judicious financial planning can easily take care of this.

Paint a picture for your retired life:

Investing without a tangible goal is meaningless. It is akin to boarding a train and not knowing your destination. Retirement can mean different things for different people. For some, it could be a time to turn off the alarm clocks and hang up their boots. For others, it could be the end of one journey and the start of another new one. An exciting new phase of life where they can fulfil all those aspirations that they have so far not had the time or energy to pursue. Knowing how you want to spend your retirement years will help you determine how much money you will need in the future.

Create an optimal asset allocation strategy:

When making an investment portfolio to fulfil your goals, there is always a probability that you might not be able to achieve them. You can minimize this risk



DARSHIT SHAH
Founder, Leader Care Finance

by creating an optimal asset allocation strategy that is well aligned with your risk-return objectives. It is imperative that you judiciously split your retirement fund between equity and fixed income assets or you might risk outliving your retirement fund. For example, if your entire retirement corpus is only in fixed income products then it is highly probable that after a certain point in time, the returns will not be able to beat inflation thereby, accentuating the risk of running out of money as you grow older. By creating a diversified retirement fund that invests in a mix of equity and debt instruments you are giving it the firepower of equities and the stability of fixed income.

Mutual fund houses, as a means of helping investing with asset allocation has

launched asset allocations schemes, which also invests across equity and debt asset classes. The benefit these funds extend is that the allocation to asset classes is managed dynamically. Such an arrangement helps the investor to make the most of the opportunities available in each of these asset classes without having to worry about booking profits at optimal time and the concurrent tax incidences such transactions may be attracting. In effect, such schemes become a one stop solution for investors.

In the long run, asset allocation as a strategy is likely to ensure that your retirement fund outlives you. Additionally, starting with your retirement planning early on can give you an edge as it gives you the opportunity to invest in equities for a longer period of time and benefit from compounding.

Know your investments:

At the end of the day, your goals are your responsibility. This means that you need to take the first steps and start your financial journey. It also means that you should be aware of your portfolio investments and understand their risk-return profile. Additionally, when it comes to creating a retirement corpus you also need to ensure that the investments are liquid and easily accessible. The good news is that you don’t need to do all this alone. You can always consult a financial planner who can help you plan your investments and create an optimal portfolio strategy.

Most people would consider the gift of longevity a blessing. The best way you can appreciate this gift is by ensuring that you enjoy the extra years without having to fret over money. Start your retirement planning early on and follow an asset allocation strategy that reflects your unique requirements. If you do this, then you are guaranteed a happiness annuity in your retirement years. ■



Digital Payments, The Need Of The Hour In This Pandemic

The government is actively pushing people to adopt digital payments at present. If earlier, it was for convenience, now with social distancing amid the COVID-19 crisis, it has become mandatory, says Dilip Asbe, MD & CEO, NPCI in a freewheeling interview with Arindam Mukherjee. Edited excerpts:

➤ What kind of growth has the digital payments industry seen in the last two months, ever since the pandemic and lockdown have started?

The offline-to-online switch in payments has been long in coming, however there has been an accelerated shift in consumer behaviour in the recent lockdown scenario due to COVID-19. NPCI has been urging and reaching out to consumers and all service providers of essential services to switch to digital payment methods to stay protected. We are seeing growth in essential categories, online donations, and entertainment on the OTT medium. There has been a dip in volumes as discretionary spends, and some of the segments like travel, hospitality are near to zero.

We are also working with several ecosystem players who are looking at innovative solutions to solve the current problems.

➤ The first big wave was post demonetisation when we saw a large scale adoption of digital payments. The second big wave came during the pandemic and lockdown. Do we see a larger adoption of digital payments?

The current situation calls for digital payments. Earlier, digital payments were about convenience but in this environment, it is practically mandatory from the safety point of view. That is why the government and Reserve Bank of India are pushing for it continuously. We will eventually come out of the lockdown but to get back to normal will take some time. Just like people will continue to wear masks and wash their hands, it will be equally important to use digital payments.

In the current environment of social distancing, we have initiated #IndiaPaySafe through our on-going 'UPI

Chalega' campaign, to create awareness about paying safe with digital payments. We hope we can encourage a lot of people, who have been used to handling cash, to switch to digital payments and cultivate a habitual change. The campaign drives a broader message across the public in terms of using UPI as an easy, safe and instant way for digital payments. We have also tried to use certain celebrities to push the cause. We have created UPIChalega.com microsite, where all useful information on how to use UPI safely can be found. We ran a challenge on Tiktok and it attracted over eight billion views.

All these numbers are important because we feel our message have made an impact and we have seen an increase in the number of users for UPI and RuPay and other digital payments.

➤ What kind of changes have we perceived in the digital payments space in the last two months?

In the current situation, both the customers and merchants are preferring to transact with social distancing. The trend is interesting on the P2M (person-to-merchant) side as we are seeing transactions, which are focused on critical purchases. On the P2P (person-to-person) payments, we have seen a decline due to social distancing. On the other hand, payments like those to the staff or workers in a small company and by families to their drivers and domestic helps are happening on UPI.

In rural areas Aadhaar-enabled Payment System. (AePS) is a critical product as DBT transfers are being made and people need to access these funds close to their houses. People are able to get the funds from Business Correspondent (BC) outlets.

It is seen that customers are preferring contactless cards, contactless payments in UPI or scan and pay and link-based payments. We are trying to make changes in our products as we see that need and way to pay is changing rapidly.

RBI and the govt are reiterating multiple digital payment options

➔ Do you expect digital payments to become the de facto norm in the country at least for the short to medium term?

As public health emergency due to COVID-19 continues to unfold, one thing is clear: the economic and human impact of this virus is significant. In the first place, coronavirus is significantly altering how consumers shop and how they make payments. Consumers are now increasingly becoming ready to embrace digital payments.

Going forward, consumers and small businesses will have a greater opportunity to pay and be paid virtually, without the need to physically go to a store, visit the bank or handle cash. As COVID-19 forces us all to adapt to potential changes in how we live, interact and handle our daily tasks, we can be confident that digital payment solutions will continue to improve, providing more immediate access to funds, especially for those who need it most. However, cash is still prevalent and we hope to see a good change in next 18 to 24 months.

➔ What is the long-term picture?

The payments industry, already one of the most dynamic sectors in financial services, continues to evolve, propelled by technological and operational innovations. India is becoming an exciting platform for development and testing of new payment technologies. Thanks to RBI and government policies, India is treated as an innovation hub for digital payments. Emerging technologies that are being slowly adopted across the globe are likely to be soon tested in India.

Consumers expect to buy anytime, anywhere, they choose, making them no longer partial to just one payment mechanism. They are going ahead with whichever channel and payment method suits them. Payments are also being added into new disruptive technologies such as voice assistants, wearables and IoT devices.



The contribution of fintech startups in digitalising the economy is important and hence NPCI wants to act as a catalyst for bridging the gap between the established financial entities and the startups. By encouraging open discussion among startups and established entities, we hope to lead to collaborations benefiting the nation.

➔ Is there any new innovation or practice, which the industry has adopted, to increase adoption of digital payments?

We are working very closely with the ecosystem players who are really looking at innovative solutions, to help wherever we can. We are also working on some ideas that should help people in this environment. For example, people have become very used to paying by UPI through QR. Currently, consumers are actually avoiding going to the store. Similarly, merchants too are avoiding too many consumers. There are also payment service providers who are coming up with innovative means, such as apps which tell you about merchants around you and by following a link, you can buy goods using UPI. Another method is that of the merchant sending across a UPI ID and through which a payment is being made. These solutions were not popular earlier.

We are going to see solutions come up and merchants move more into the 'Phygital World', so they do not have to go completely online. People would be able to call in or use some messaging mechanism to place orders or communicate by exchange of photographs, saying what they want to buy and ultimately the payment can happen digitally. Somebody goes and picks up the goods or these are delivered.

Post lockdown, it is going to be a phase where we will still have to be cautious and take extra precautions to stay safe until the world has really gotten rid of this situation. This period is all about creating those solutions and innovating to solve these needs for the public, merchants and businesses.

➔ What kind of support has the government provided to push digital payments?

In the current lockdown situation, along with RBI and the government, we are requesting citizens to switch to digital payment methods to stay protected. NPCI and other state governments are ensuring more vendors of essential services are on digital platforms. The government has taken to social media to encourage the use of online payments and discourage cash usage. The RBI and the government are constantly reiterating multiple digital payment options available for customers in their day to day transactions such as NEFT, IMPS, UPI and BBPS that are available 24*7. 

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Gather The Rosebuds Right Now

If you are planning to buy a residential property, now is the best time to do so

By **Anagh Pal**

While we have seen various economic and political crises, the COVID-19 is perhaps the biggest ever global crisis since the Great Depression in the late 1920s. This crisis or pandemic will change the way most businesses operate in the foreseeable future. Needless to say, real estate would be no exception. Naturally, there will be an effect on residential real estate in next 12-18 months.

Now, consumers are embracing the idea that their own home is the safest place to reside in. Buyers are now resorting to digital medium to book homes.

“While we have seen online demand for residential real estate declining in the initial phase, we are seeing demand come back in the new homes, resale and rental segments. We also believe that as companies implement remote working, demand for residential real estate may spur demand in new micromarkets

including Tier 2 and Tier 3 cities where homes are more affordable,” says Mani Rangarajan, Group COO, Housing.com, Makaan and PropTiger.

Having said that, residential realty is likely to experience a huge impact, according to Avneesh Sood, Director, Eros Group. He points out that there is a belief among many that they will lose jobs and would not like to take a long-term loan where they are not confident about the future. Many developers across the country may not be able to sustain the present debts and would go bankrupt if the government does not come out with a relief sooner than later.

“Even labour would not come back to cities if they feel safer in their villages, which might end up increasing the cost. With labour unavailability, the costs of construction would go up and the supply constraints will result in an increase in the cost of materials,” he adds.

“While some developers who have on-site labour have resumed construction, we are



yet to see construction at full-swing. This will likely take some time given that migrant labour may not be available as supply chain of raw material has been disrupted in some areas," says Rangarajan.

However, the problem of migrant labourers is expected to reverse once the situation improves over the long term.

Also, most of the projects, which were under construction have been put on hold because of the lockdown. After the lockdown is relaxed, it will be a period of about six months before those projects are completed. Hence the government has suggested that project completion deadline be extended for at least six months for the RERA-registered ones. So, it will be some time before new projects are launched.

"However, there is a huge amount of unsold inventory in big cities. At the higher levels of ₹75 to ₹1 crore, there are not too many buyers but for houses that cost between ₹25 lakh to ₹75 lakh, buyers are there," says Deo Shankar Tripathi, MD and CEO, Aadhaar Housing Finance. So, there will be a lot of ready homes that can be bought when the pandemic is over.

Tripathi says that since affordable housing is dependent on informal local builders, these projects might not be affected that much as labour requirement is somewhat limited for such projects.

"The young generation will now be inclined towards buying property without delay. People who were living on rent and were investing in other asset classes are realising the importance of owning a home post lockdown. The focus now is to own a property for various reasons including it being the safest investment option in the long run. This change in mindset will definitely increase the demand of affordable housing," says Pradeep Aggarwal, Founder and Chairman, Signature Global and & Chairman - ASSOCHAM National Council on Real Estate, Housing and Urban Development.

Another factor to consider is that of incomplete projects. Lot of projects were still under construction when the lockdown was announced and there is the concern that the problem could get worse. The real estate sector has been experiencing liquidity crisis for two-three years now. Incomplete projects fall in two categories – stuck and delayed. Both these projects are facing problems due

to liquidity crunch. "Government has to come forward with some solution to make sure that buyer should not suffer. One of the ways to deal with them could be giving these projects to willing financially strong developers.

However, this has to be done on case-to-case basis. Else government has to step forward to help realtors complete them. The situation these projects are in has nothing to do with COVID-19, except that the pandemic has further worsened the situation of such projects," says Aggarwal.

However, Yash Miglani, MD, Migsun Group is optimistic because he feels that more than the buyers, the developers would be keen on delivering projects within authorised timelines. The government has given us timeline extensions. "Now defaulting on those would mean extra costs, lockdown has anyway put certain stress on fund allocation, so developers would not be treading the way of defaulting payments. Buyers can be assured for timely deliveries," he adds.

Miglani believes that the recent government measures to infuse liquidity into NBFCs can also benefit developers as some of them are dependent on NBFCs for financing. Given that buyers prefer ready-to-move-in projects and the fact that developers are subject to penal clauses under RERA, we are likely to see developers focus on completing under-construction projects.

One thing that may act as an incentive to buy a house are the reduced home loan interest rates at present. This has certainly led to a rise in enquires though it is to be seen if it leads to a rise in sales. "Individuals with regular and secured incomes will be conjugating their financial decisions for being better prepared with situations like these. The lower interest rate will be directly passing on the benefits to end users. Such

MANI RANGARAJAN

Group COO, Housing, Makaan and PropTiger

We are seeing demand for residential spaces come back in new homes, resale and rental segments



Reasons To Buy A Home Now

- Low prices, corrected from a 5-year-peak
- Lowest interest rate in a long time ranging from 7.15%-7.8%
- Availability of price protection plans
- Good deals available in ready-to-move-in options
- Stability of real estate as an asset class



favourable scenarios might fuel demand for homebuying to a certain section of end users, but this cannot be a definitive pattern across a demography or location,” articulates Miglani.

Another question is whether residential property prices will fall once the pandemic is over? Here, one needs to understand that the way the real estate market was before the coronavirus crisis holds a key to how it will behave once things get normalised. “The market was a very stable one and an end users’



YASH MIGLANI

MD, Migsun Group

Government has given us timeline extensions; therefore buyers can be assured for timely deliveries

market. Even before the coronavirus crisis we were in a situation where there was no speculative pressure as such because many investors burnt their fingers and were keeping away from residential realty,” says Pankaj Pal, President- Business Development and Strategy, AIPL. Prices were very rational if you compare with the benchmark. So, when the COVID-19 crisis is over, there will at least be no price correction because the levels had already corrected from the five-year-old peak.

Sharing his views on the same, Dhiraj Jain, Director, Mahagun Group says, “Builders are seen extending incentives to buyers even during lockdown, in order to keep sales in motion. Depreciating prices is highly unlikely due to various factors including hike in values of raw materials and exodus of migrant labourers.” Also, developers will be working under the dual pressure of timelines and guidelines, leading to extra funds and time from their end, he adds.

Rangarajan says that we have not seen significant price appreciation in most Tier 1 cities except Hyderabad where prices have increased by double digits over the last two years. At the same time, developers have incurred higher expenses as construction costs, regulatory compliance costs and wages have increased. In this scenario, while we may see some softening in prices, we are not likely to see prices declining significantly all across the market.

However, he adds that a homebuyer can expect numerous incentives. Several developers including some top brands such as Godrej and Brigade have already launched several schemes for homebuyers including the possibility to book units on a token amount that will be partially or fully refundable on completion within a certain period of time from the end of the lockdown. Some developers have launched a price protection scheme, where buyers will be compensated for any price reductions for a certain period of time from the date of booking.

“It is a good time to buy a home. The whole ecosystem supports the buying decision,” says Pal. Therefore, if you had plans for buying a house and are sure about your financial stability, post the pandemic, go ahead and buy the house of your dreams. ■

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Asset Allocation as a strategy helps in weathering financial markets storms



Koushik Ketharam
Founder, Intelli360 Wealth
Advisors, Chennai & Dubai

The on-going spread of the COVID-19 pandemic has rattled the equity markets world over. The aftermath has resulted in sharp corrections and recovery within a very short span of time world over. At such instances of sharp market movements, it is natural for retail investors to panic. After all, for many retail investors who entered the market towards the end of 2018, the current level is quite close to the time of their first investment. Further, they may have been encouraged to buy into the fall, as a means to gain from the prevailing low asset prices. While the advice is true in principle, it might be difficult for a retail investor to determine if the market fall has ceased.

So what should such an investor do? Asset Allocation is the answer to this worry which may be afflicting millions of investors.

Asset allocation is the process of deciding how to divide your investment across several asset categories. The asset categories here can be equity, debt and/or gold (or maybe real estate, commodities,

etc). The goal of asset allocation is to minimize volatility in one's portfolio while maximizing return. The process here involves dividing your investment among various asset categories that do not all respond to the same market forces in the same way at the same time.

Stocks/equities do well under vastly different conditions compared to fixed income/debt investments. Equity market tends to generally perform well in expansionary economies. On the other hand, bonds tend to generally perform well in contracting economies. Given that the economic conditions are not static in nature; the attractiveness of an asset class will tend to vary from time to time.

As a result, if your investments are concentrated in a particular asset class which may not be performing very well at a particular point in time, the entire portfolio is bound to be impacted. Having a diversified portfolio with holdings across asset classes ensures that the gains in a particular asset class will help offset some of the losses in another asset class, thereby helping to reduce the negative impact of the laggard on the overall portfolio.

However, for a lay investor, managing asset allocation with periodic rebalancing may seem easier said than done, as regular monitoring of the valuations of different asset classes is not an easy task given the dynamic nature of markets. Given this predicament, maintaining optimal asset allocation through mutual funds may prove to be an optimal approach for investors. Mutual funds allow professional fund management of the money invested and adopt scientific valuation models to determine the relative valuations across the asset classes.

Within mutual fund space, there

is a specific category of fund termed as asset allocation funds which can prove to be very helpful. Asset Allocation funds help to address the need to re-balance allocation to various asset classes based on their relative attractiveness. Many of such funds tend to model based when it comes to their equity investments. Such an approach ensures that there is no room for emotional biases when it comes to equity market investments. They also help an investor to 'buy low and sell high' which is achieved by increasing allocation to equities when the valuation is attractive and booking profits in a staggered manner as the market begins to turn expensive.

By sticking to the discipline of asset allocation, an investor can be rest assured that one's investment portfolio is not adversely impacted by volatility in any one particular asset class. In effect, asset allocation helps improve the overall portfolio performance and keeps financial planning intact. It has been proven over years that asset allocation as a strategy is helpful in weathering financial markets storms. One study suggests that more than 91.5% of a portfolio's return is attributable to its asset allocation. Individual stock selection, market timing and several other factors jointly accounted for less than 8.5% of a diversified portfolio's return.

Take Away

Since determining an appropriate asset allocation is the single most important investment decision because of its high impact nature, it is important to get this right. Seek the help of a financial planner who can help you reach optimal asset allocation as per your financial goals. Also, be sure to periodically review your portfolio with the financial planner to ensure that your chosen mix of investments continues to serve your evolving investment needs as your circumstances change over time. ■

Know The Risks In Debt Mutual Funds

It is better to understand the nature and play safe while investing in these debt instruments



By **Himali Patel**

The turmoil in the debt funds space along with illiquidity issue in the credit markets has affected since the bankruptcy of IL&FS in September 2018.

The onset of COVID-19 and the subsequent lockdown impacting the businesses has only added fuel to the fire in the credit market.

Further, in April 2020, Franklin Templeton (FT) Mutual Fund announced winding up of six of its credit-focused debt schemes. This was a rude shock to the entire debt mutual fund investors, who rushed to withdraw their investments from credit funds as well as other

debt MF schemes. Although the debt-oriented categories witnessed a net inflow of ₹43,432 crore in April, the credit risk category, given its nature, was one of the

GEORGE HEBER JOSEPH

CEO and CIO,
ITI MF



During a downgrade in corporate debt paper, it becomes highly illiquid and finds no takers

worst hit with a net outflow of ₹19,239 crore during the month. Investors in credit risk funds ran for exits after FT MF incident.

The uncertainty triggered by these events in the debt markets has not only restricted the fund houses' ability to sell the securities but has made investors question fund houses whether to continue investing in debt funds or not. "When the economy is at the bottom levels and big crisis situations happen, like what we are facing today, the corporate bond markets become very illiquid. The price discovery and the trades happen mostly in OTC market which makes the

depth also very poor. If there is a downgrade in any corporate debt paper, the instrument immediately becomes highly illiquid and will find no takers, this makes the life bit difficult,” explains George Heber Joseph, CEO and CIO, ITI MF.

Lower rated papers usually have very low liquidity as they cannot be sold immediately in the market at a fair valuation in India. During times of stress, the liquidity for such lower rated papers becomes even more tight as everyone becomes risk averse and wants to lend only to higher rated corporates. As per the Morningstar note dated April 24, the FT funds were run with a clear focus towards a credit (or accrual) strategy, with significantly higher exposure to AA and A rated instruments as compared to their

Lower rated papers cannot be sold at a fair valuation

peers. In such a strategy the idea is to invest in high yielding bonds and stay invested till they mature. This is an appropriate approach to be practiced in such funds or strategies as the underlying securities tend to be less liquid in nature making it difficult to liquidate them in the interim.

Due to this nature of these funds, FT found it difficult to meet the redemption pressure in the recent times. “Credit-risk funds are debt funds that have at least 65 per cent investments in less than AA-rated paper. Credit risk is the risk of default in an underlying debt security that may arise from a borrower failing to make the required payments (principal or interest),” says Deepak Khurana, Performance Director for Fund Ratings and Distribution, Asia Pacific Region at Refinitiv.

Within the debt MF universe, credit funds inherently carry high credit risk as typically they invest in lower credit quality papers where

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Focus on the asset quality and liquidity and refrain from tracking NAVs on a daily basis

the probability of default also stands higher as compared to a sovereign/AAA/AA+ issuer. “Top rated papers AAA & AA+ rated (A1+ for short term instruments) have good trading volumes and offers sufficient liquidity to investors. Lack of liquidity in low rated papers is mainly because major financial institutional buyers like banks, insurance companies have certain investment restriction with respect to dealing in below than investment grade papers.

Returns From Debt Mutual Funds Across Categories (%)

Debt Fund Category	3 Months	1 Year	3 Years	5 Years	10 Years
Banking and PSU	1.85	11.09	8.06	8.23	8.53
Corporate Bond	1.70	8.81	7.15	7.66	7.84
Credit Risk	(6.18)	(5.31)	0.69	3.71	6.89
Dynamic Bond	2.02	9.79	6.54	7.47	8.29
Floater	1.36	8.12	7.27	7.56	7.95
FMP	0.94	4.84	6.21	6.75	7.72
Gilt	3.74	14.85	8.33	8.87	8.63
Liquid	1.26	5.62	6.47	6.83	7.80
Low Duration	(0.55)	0.30	4.50	5.79	6.98
Medium to Long Duration	2.16	10.01	6.41	7.30	7.65
Money Market	1.66	7.27	7.07	7.35	8.03
Short Duration	0.87	4.92	5.50	6.50	7.41

Source: Value Research; Note: Data as on 14th May 2020

Relatively lesser interest by market participants dry up the liquidity especially in such uncertain times,” says Deepak Jasani, Head Retail Research at HDFC Securities.

As per the Motilal Oswal AMC report on Industry flow Insights, Fixed Income experience is not as bad as it is made out to be, as there are isolated instances of disastrous performance but between 7 per cent to 10 per cent post tax returns over last 3, 5 and 10 years is not a bad outcome.

If one looks at the table of debt mutual fund across categories returns (See Visual), credit risk fund has not given additional returns, gilt funds have beaten corporate bond and credit risk funds over the 10-year period. Also, it would be unfair to put all the blame on fund managers during such credit crisis, especially when there are instances of mis-selling and mis-buying of the products without understanding one's own risk appetite of risk involved in such products.

How many investors would truly know that there are 17 categories of debt mutual funds as per classified by the regulator, Securities and Exchange Board of India (Sebi). This ranges from long duration funds to overnight funds to floater funds and that is why it is crucial for investors to choose the right kind of debt

DEEPAK JASANI

Head Retail Research,
HDFC Securities



Relatively less interest by market participants dry up liquidity in uncertain times

DEEPAK KHURANA

Performance Director,
Fund Ratings &
Distribution- Asia Pacific
Region, Refinitiv



Credit risk is risk of default in debt security, when the borrower fails to make payment

funds that suits their own risk profile. But the main flaw in the system is that even today many investors think that debt funds are completely risk free. Investment in debt MFs are subject to market risks and there is no guarantee on either the principal or returns as well. Fund managers invest money in fixed income securities like bonds and debentures issued by corporates, financial institutions and governments.

This is essentially lending done to these institutions by mutual funds and hence, there exists a possibility of default and credit risk or default risk. Yet another risk that investors need to keep in mind is interest rate risk. This risk is specific to debt funds and plays out when interest rates begin to move up. “Since bond prices and interest rates are inversely proportional to each other – when interest rates go up bond prices fall and vice versa. This impact on bond prices is reflected in the Net Asset Value (NAV) of mutual funds. Besides, with these two pertinent risks in debt funds, investors should also ensure returns from these funds (adjusted for taxes) are higher than inflation, this is better known as inflation risk,” says Rahul Jain, Head, Edelweiss Personal Wealth Advisory.

Each of these risks need to be defined clearly and explained to

the investors. That said, retail investors must look at the groups or business houses these funds are investing in, as it helps them understand the group's solvency, credit and finance parameters. They should look at liquidity, volatility, predictability and returns in that order while investing in debt funds, feel experts.

“As most debt fund investors are conservative - low duration/ short term / Banking PSU categories with optimal exposure to AAA rated paper would be the ideal option. Investors investing in search of higher return (with higher risk) can consider dynamic / credit risk funds. Doing a Systematic Investment Plan (SIP) in gilt funds can be considered as a part of long-term investment goal. Shorter duration funds, especially overnight and liquid funds, are a safe bet for short-term parking and capital protection needs,” explains Jasani.

That said, as much as risk profile is important it should be aligned with one goal and time frame. Even before redemption, investors should analyse the downside risk in case of mark down of the security or in case of closure of the schemes.

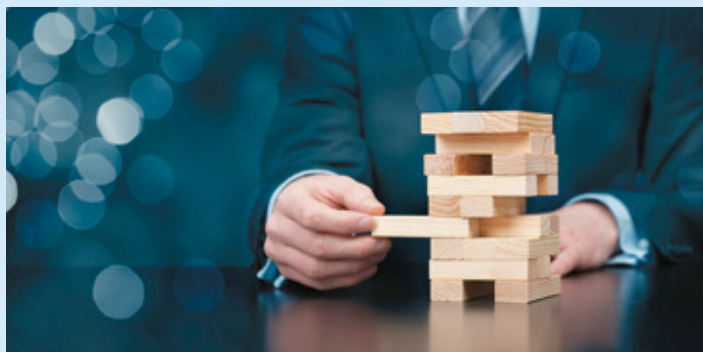
“A short-time frame leaves little room for taking risks. One need not be in debt funds to earn like saving banks account returns. Their time frame should align with that of the funds they choose. It would be wise to stay away from credit for the next few quarters given the economic situation and risk of defaults. Credit risks may well be prevalent in a low-duration or ultra-short fund. So, knowing the quality of a portfolio is important,” says Vidya Bala, Co-Founder, PrimeInvestor.in.

The other thing an investor

Debunking The Myths Of Debt Mutual Funds

Debt funds are risk free

Investment Debt mutual funds are subject to market risk and there is no guarantee on principal or returns. There have been many cases where a negative return arises from a default by the issuer or illiquidity issues. For instance, a fund manager can lose his entire capital, in case of any default, by the institution in whose bonds the money has been invested in.



Debt funds will never give negative returns

It is important to note that Net Asset Value (NAV) of debt funds tend to move up and down, depending on the price movement of securities, being held by the fund. Bond prices in turn, are affected by interest rate movements, as both bond prices and interest rates, are inversely related. "Any adverse movement in interest rates can lead to a fall in bond prices and consequently a fall in the debt fund NAV," says Rahul Jain, Head- Edelweiss Personal Wealth Advisory.

All debt funds are the same

In reality there are 17 categories of debt mutual funds. All have different levels of risk attached to them. "Objectives of different debt funds may be different, some may focus on quality and some on returns and therefore may take various degree of risk that may not be appropriate for many Investors," says Jimeet Modi, Founder and CEO, Samco Securities. Hence investors need to understand the risks associated with the various schemes in which they have invested. Investors should stay true to their asset allocation. Maintaining high credit quality portfolio in current environment is of utmost importance.

Investors can buy a debt fund and forget about it

The reality is that like all investments, debt funds need to be monitored and reviewed regularly for credit and interest rate risks. And in that context, debt funds require more active management when compared to other traditional fixed income securities. Safety, quality, and liquidity are very important aspects of debt funds. Safeguarding the downside is extremely necessary. "Risk adjusted

return has to be seriously considered while making debt fund investments, which is where people make the biggest mistake. Especially in debt funds, where there is no big upside possible when someone is offering very high returns. It has to be weighed against the risk taken also," says George Heber Joseph, CEO/CIO, ITI MF.

The higher the return the better the fund

Making investment based upon past performance should not be the only parameter to invest in a debt fund. Look for details. Higher returns should not arise from lower credit risk debt Instrument in the portfolio that is accounted on accrual basis instead of actual receipts. "The economic situation is dynamic and therefore the returns will be completely dependent upon the quality of portfolio and not past performance," points out Modi.

Mark to market loss is permanent

The impact on debt funds is limited to Mark-to-Market (MTM) impact when a security is downgraded, as the price of the security is adjusted downwards to account for the rating change (in bonds, yield and price move inversely, where in case the yield goes up price comes down and vice versa. Hence, during a downgrade the yield goes up as buyers demand more rate to buy a downgraded security. In case of a default by a company, the value of that security may have to be written down according to regulatory requirements. This may lead to permanent loss of principal/interest, till the funds are recovered (if any) from the defaulting company. "However it not a permanent loss if there is no credit default. MTM loss/gain happens even if yields go up and down," says Lakshmi Iyer, Chief Investment Officer (Debt) & Head Products, Kotak Mahindra AMC. ■

needs to be aware of is the allocation of the portfolio towards each of the corporate groups. One should take care that no scheme has a large allocation towards a particular corporate group. "Retail Investors should diligently look at the latest holding of the debt mutual fund scheme and assess the quality of the issuers, concentration of the portfolio, deproteinise coupon rates of any and should restrict themselves to few categories schemes with high quality portfolios apart from overnight and liquid funds," says Jimeet Modi, Founder & CEO, Samco Securities.

During the absence of the

RAHUL JAIN

Head, Edelweiss
Personal Wealth
Advisory



Investors should ensure returns from these funds are higher than inflation

economic activities it was only corporates who were taking out money for cash management. As the uncertainty is looming large with respect to economic activities the panic redemption for high net-worth individuals and retail investors have increased. However, it is only when the lockdown is lifted that normalcy can be seen in the debt market. Till then it is crucial to stay invested. "In any scenario, it is extremely important for investors to stay the course of the intended investment tenure. Panic only causes pain. If one has done sufficient due diligence while making investments, why succumb to panic, especially when isolated cases don't form the rule. Hence focus on asset quality and liquidity and refrain from tracking NAVs on a daily basis," expresses Lakshmi Iyer, CIO -(Debt) & Head Products, Kotak Mahindra AMC.

As per the AMFI the redemptions have slowed down substantially in credit risk funds because of a special window of ₹50,000 crore provided by the RBI. Further measures taken by the Sebi deepen bond markets over the years and have allowed

VIDYA BALA

Co-Founder,
PrimeInvestor.in



Credit risks could be prevalent in the low-duration or ultra-short funds

normal functioning of markets and growth of debt MFs, cites AMFI. The Prime minister's announcement of economic stimulus package of ₹20 lakh crore on May 12 will be a big positive for the financial sector. However, these measures would be of a great help for the economy, but the bond markets have become more anxious about how the government will fund this kind of spending.

"The current pandemic and subsequent lockdowns have adversely impacted economic activity. This will impact government revenues, leading to higher fiscal deficit. This deficit will largely be tackled by higher borrowings that in turn will push up interest rates. This will negatively impact bond prices and therefore, also debt fund NAVs," says Jain. As per experts, debt fund investors should not go by the belief - buy a fund and forget about it. For the investors it has become more imperative than ever to understand and keep in mind the risk factor associated with various debt mutual funds. As debt funds require more active management when compared to other traditional fixed income securities, your portfolio should be best evaluated in consultation with an expert. ■

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Things To Look For When Investing In A Credit Risk Fund



Pallav Bagaria
Director, Sapient Wealth Advisors
and Brokers Pvt Ltd

The Indian debt space, especially the credit market, has been under pressure post Franklin Templeton's abrupt decision to close six of its debt schemes. This episode has led to a crisis of confidence among the debt mutual fund investors. Such instances sharply bring into focus the importance of understanding a fund house's debt management practice philosophy. When investing into a debt fund there are two ways through which alpha is generated – by taking duration calls and/or credit calls. For Franklin, it was all about taking aggressive credit calls.

When it comes to taking a credit call, the credit investment team carries out the required due diligence and makes an informed investment decision. In India, today, among the top 10 mutual fund houses, ICICI Prudential Mutual Fund is the only one which can claim that they successfully shielded investors from bad investments since the IL&FS fiasco which occurred towards the end of calendar year 2018. The fund house did not have a single paper which has either defaulted or downgraded which in the past has

kept the investors on edge. They have been successful in achieving this enviable feat due to the stringent processes following when it comes to on boarding a credit into their portfolio.

Even though credit is one area which investors would like to keep away from owing to the cloud of negative news surrounding them, this space provides an attractive investment opportunity in the prevailing market environment. The elevated yields and relatively higher risk reward benefit prevailing currently makes credit an interesting space to invest in. currently, there is significant divergence which is prevalent between G-Sec/AAA yields Vs. AA/A yields. The reason for such divergence could be attributed to the credit concerns, lack of transmission of rate cut and due to flight to safety. Hence, one can consider investing in credit schemes which invest in higher spread assets and earn the higher carry over repo rate.

From an investor's perspective it is important to stay invested in a fund which has managed to weather the various storms seen in this space successfully, over the years. For the ease of fund selection, following are some of the pointers to look for in a credit risk fund.

Credit assessment practices:

This is the first and foremost point to watch out for. There are fund houses where the credit on boarding decision is taken by an individual; fund manager. In some other fund houses, the decision is taken by an independent credit research team where the decision is vetted through the collective acumen of various experts who are a part of that team. For example: ICICI Prudential has one of the largest and the most experienced credit research team in

the industry. Owing to the process rigour the fund house enjoys an unmatched track record in credit management and has never been a part where the fund house was not able to recover dues. This shows the importance of the credit assessment processes followed.

Adequate portfolio diversification

An ideal fund is the one in which the investments made are spread across companies from diverse sectors. While the asset side diversification can be gauged through the monthly portfolio declared through factsheet, it is important to seek the details of the liability side. Some fund houses, in order to ensure diversity, has capped the quantum of investment possible by a single investor.

Chasing 'yield'

Watch out for fund houses which have been chasing higher yields by investing in lower quality debt paper. This is what often leads to accidents in portfolios seen in credit space from time-to-time.

Check for side pocketing of portfolio

Check if there have been instances of side pocketing historically. This will indicate how robust the portfolio was and how has the fund been managed during turbulent times, as compared to what it is today.

Performance track record

While past returns is no indication towards future returns profile, the past performance of a debt fund can provide a fair idea on how consistent the fund has been when it comes to generating returns. For example: Over the past one year, within a debt category, there have been instances of schemes generating negative returns while others have managed to generate positive returns for its investors. ■

Yellow Metal To Reap Golden Harvest

Industry experts believe that gold prices will surpass ₹50,000 mark in the next 12 months

By Aparajita Gupta and
Yagnesh Kansara

The faster engulfing of world population by novel Coronavirus (COVID-19) contagion has spiked the price of the yellow metal globally. Apart from the deadly virus, Sino-US trade war has played a crucial role behind gold price skyrocketing. Now the pandemic has wreaked havoc on the stock markets around the world, causing major indices to crash to their multi-year lows. This has had a direct bearing on gold prices, causing them to rise to an astronomical high.

In fact, some experts are of the opinion that gold prices are likely to surpass ₹50,000 per 10 grams mark in the next 12 months.

The upheaval caused by the virus, leading to economic lockdowns



all across has altered the world's perception towards everything. Fear of an unknown future has permeated so deep in the social fabric that everyone continues to believe the worst is yet not over. The sliding global economy has left people feeling anxious about the huge monetary "stimulus" that would cause fiat money supply to increase without corresponding growth in productivity. Needless to say, that owing to such activities, investors' search for a safe haven have sharply enhanced gold's status as an investment tool.

Gold being a highly liquid and probably the best-performing asset class year-to-date, lends itself well to liquidation during uncertain times; helps investors raise cash and counterbalance losses stemming from other asset classes. This is a critical role that gold plays and the reason why it is a preferred tool for diversification.

Sharing his views on the current price trends and expected performance of gold, Somasundaram PR, Managing Director, India, World Gold Council says, "India as a price-taker, is influenced by these global factors and in addition, rupee depreciation fuelled INR/rupee price increase. However, gold market is practically frozen with no imports,

World Official Gold Holdings As Of May 2020

	Tonnes	% of reserves**
United States	8,133.5	78.3%
Germany	3,364.2	74.3%
IMF	2,814.0	1)
Italy	2,451.8	69.5%
France	2,436.0	63.4%
Russian Federation	2,299.2	21.1%
China, P.R.: Mainland	1,948.3	3.2%
Switzerland	1,040.0	6.3%
Japan	765.2	2.9%
India	641.8	6.8%

Source: World Gold Council

recycling, refining, manufacturing or selling and domestic prices are at a steep discount to international prices. Yet, even at this level, INR/rupee gold prices are at life-time high." says

Demand for gold in India for January-March quarter (Q1) 2020 was at 101.9 tonnes, down by 36 per cent as compared to overall Q1 demand for 2019 (159 tonnes) due to the economic uncertainties brought in by the novel Coronavirus outbreak, said World Gold Council in its latest report.

Total jewellery demand in India during the quarter was down by 41 per cent at 73.9 tonnes as compared to Q1 2019 (125.4 tonnes). The value of jewellery demand was ₹27,230

crore—a drop of 27 per cent from Q1 2019 (₹37,070 crore). Jewellery demand was at 11-year low.

While the total investment demand for Q1 2020 was down by 17 per cent at 28.1 tonnes in comparison with Q1 2019 (33.6 tonnes), total gold recycled in India in Q1 2020 was 18.5 tonnes, as compared to 16.1 tonnes in Q1 2019, a rise of 16 per cent compared to Q1 2019.

However, why are investors turning towards the yellow metal in times when the market is going through a turmoil?

"The main reason behind investors turning towards gold at times of market crisis is the fact that the yellow metal would not lose its worth completely. It may decline or increase, depending on the demand; however, it would not lose all of its value. The current market scenario has caused a spike in the gold prices of late as both individuals and institutional investors have turned towards gold. The inflow of funds into listed gold ETF has been steady from all regions," says Archit Gupta, Founder and CEO, ClearTax. According to the World Gold Council's global gold-backed ETF flows April 2020 report, globally,

ARCHIT GUPTA

Founder and CEO,
ClearTax



Investors are turning towards gold because the yellow metal will continue retain its worth



gold ETFs added 170 tonnes – net inflows of \$9.3bn (5.1 per cent) – in April, boosting holdings to a new all-time high of 3,355 tonnes. Assets under management also reached a new record high of \$184 billion as gold in US dollars moved higher by 5.8 per cent.

Somasundaram says ETF inflows in India increased by four tonnes and Sovereign Gold Bond issued around Akshaya Tritiya saw a significant response.

“However, India is primarily a retail gold market, there is very little institutional buying though allocations from mutual funds as an alternative asset could rise. But retail jewellery market will be the driving force of Indian gold market for the foreseeable future, with digital engagement picking up some momentum,” he adds.

Adding on to it, Navneet Damani, Vice President, Commodities Research, Motilal Oswal Financial Services, says, “There has been series of events lined one after the other, which pushed the gold prices to its highs, apart from other uncertainties, outbreak of COVID-19 since the start of this year has petrified the market and increased distress in major economies globally.”

“As panic increase demand for gold does too, although witnessed in the recent past amidst the lockdown situation and all other asset classes



bleeding red, market participants liquidated their positions from gold in order to sit on cash in this difficult time. In the previous year (2019) gold prices have rallied over 25 per

cent last year and this year again has given ~10 per cent returns,” he adds.

Comparing the average price of gold last year, ₹35,220/10gms, to the present rate of ₹47,200/10gms, gold has appreciated over 34 per cent. Comparing the gold price of last year around this time, ₹31,496/10gms, to the present rate of ₹47,200/10gms, gold has appreciated nearly 50 per cent.

“If we look at the average annual return of gold since 1981, it was of 10 per cent; it has outpaced the Indian Consumer Price Index (CPI) that averaged over the period at 7.35 per cent. In India, gold’s dual position as an investment and for adornment has allowed it to deliver

SOMASUNDARAM PR

Managing Director, India,
World Gold Council



**Retail jewellery market
will be the driving force
of Indian gold market
for foreseeable future**

India Gold Demand Corresponding Period Jan-Mar 2019/2020

Gold Demand	Q1 '19 January – March 2019			Q1 '20 January – March 2020			% Growth Volume		
	Tonnes	₹crore	\$bn	Tonnes	₹crore	\$bn	Tonnes	₹crore	\$bn
Jewellery	125.4	37,070	5.3	73.9	27,230	3.8	-41%	-27%	-29%
Investment	33.6	9,940	1.4	28.1	10,350	1.4	-17%	4%	1%
Total	159.0	47,000	6.7	101.9	37,580	5.2	-36%	-20%	-22%

Source: World Gold Council



Being liquid, gold lends itself well to liquidation during uncertain times

up because more central banks are increasing their reserves?

“No, that is not the case. Gold price movements cannot be attributed to Central bank buying though this trend further reinforces gold’s diversification and safe haven properties. Central banks have been net buyers for over a decade now and more recently, in 2018 and 2019, bought 650+ tonnes annually, which is a multi-decade high since removal of gold standard. The motivations for buying gold differ between countries. Central banks have three main objectives when they are thinking about reserve assets: to keep their assets safe, to keep their assets liquid and to generate returns. Gold can help to meet all three policy objectives,” clarifies Somasundaram.

Pankaj Bobade, Head - Fundamental research, Axis Securities highlights as the Central banks of developed nations have been on easing spree to fight the economic contraction, fiat currencies are expected to face pressure in the near future. In such a scenario, gold is likely to emerge as a safe-haven asset.

“One should have a part of the

average returns of approximately 9 per cent over the past 10 years, comparable to stocks and more than bonds and commodities,” adds Somasundaram. Gupta says gold is expected to float between ₹45,000 and ₹47,500 levels in this fiscal year.

Echoing similar thoughts, Damani says, “Since we have seen such a good run up and liquidation in other assets classed, there could be bouts of correction in the near term. But the medium-term picture still looks very promising and expect gold on the Comex to above \$2,000 and domestic gold prices could target upwards of ₹52,000 over the next 12 months.”

Shekhar Bhandari, Senior Executive Vice President and Business Head, Global Transaction Banking & Precious Metals, Kotak Mahindra Bank says, “We can expect gold prices to continue the rally, to settle above ₹5,000 a gram by the end of this financial year, primarily driven by the COVID-19 crisis and its significant impact on the global economy.”

Gold is a hedge against uncertainty and a good investment vehicle, especially in the current scenario. But is gold price shooting

portfolio invested in Gold ETF as an insurance against the possible volatilities expected in the global financial market,” he adds.

Praveen Singh, AVP - Fundamental Research, Sharekhan by BNP Paribas says that global interest rates have fallen sharply as global central bankers have cut around 750 basis points of rates to combat the global economic slowdown.

“The major central bankers are forced to adapt accommodative monetary policies and support the crumbling economies with everything that they can, which includes quantitative easing too. Talks of helicopter money are not really rare anymore. Although physical demand for gold remains weak in key consuming nations like India and China, we are seeing strong physical demand in the US, Canada and Australia,” he adds.

Since people are money-starved due to the tight economic health, would there be more recycling of old than fresh buying this year?

Somasundaram says it is difficult to predict as several factors are involved with no clarity such as guidelines by authorities on in-store buying post the lock down period, imports, logistics issues, return of karigars and such.

“The scale of economic disruption is not clear yet and when it does, consumer sentiment could change and policy reactions too. Normal monsoon as predicted by IMD could be positive. Recycling and loans against jewellery could rise significantly following a combination of high gold prices amid stress on household finance,” he adds.

As every investor is going through the turbulent times and looking for a ray of hope, investing in the yellow metal can reap golden harvest for many of them in the longer term. ■

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NAVNEET DAMANI

Vice-President,
Commodities Research,
Motilal Oswal Financial
Services



A series of recent events one after the other have pushed gold prices to its highs

Well-Insulated From Lockdown

NTPC promises a stable performance, say experts

By **Himali Patel**

India's largest power utility company, NTPC, which aims to become a 130-Gigawatt (GW) company by 2032 led by its robust regulated business model, would have a negligible impact of COVID-19 believe analysts. The nationwide lockdown has led India's power demand nosedive by 20-25 per cent Year-on-Year (Y-o-Y). However, this well-regulated company remains well-insulated from these external conditions. The company is into the operation of power generation plants and supplies power to state electricity boards throughout India. It generates power from gas, coal, hydro, solar, nuclear and other renewable energy sources. The company's growth depends on the capacity creation as well as on the plant availability. NTPC has an installed capacity of 50 GW.

The company recently acquired 100 per cent and 75 per cent equity stake in North Eastern Electric Power Corporation (Neepco) and THDC from Government of India (GoI) for ₹4,000 crore and 7,500 crore respectively. Both these value-accretive acquisitions will add more than 2,500 megawatt (MW) of operating hydropower capacity to the firm's predominant thermal portfolio. "These acquisitions will help NTPC diversify its thermal based portfolio as non-thermal capacity and before this event it was just 800 MW. Post this arrangement, hydro capacity operation will be 3,125 MW or 5 per cent of the total

consolidated portfolio. NTPC has a target to have 40 per cent of the portfolio from the non-thermal segment by 2032," says an analyst at ICICI Direct.

On the financial front, NTPC posted a decent numbers for third quarter (Q3) for FY2020. The Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) margin was 31.9 per cent and expanded by 380 basis points (bps) on the back of lower fuel costs (-14.1 per cent Y-o-Y) and improved realisations. Further net profit witnessed a 25.6 per cent Y-o-Y to ₹2,995 crore for Q3 FY2020. However, the company's standalone revenue fell by 2.6 per cent Y-o-Y to ₹23,496 crore. Further the gross generation declined by 12.6 per cent to ~61.2 Billion Units (BUs) and energy sold was down by 13.9 per cent Y-o-Y to 56.3 (BUs) due to higher than expected tariff. On the positive note, the muted power demand, as well as production ramp-up at Coal India's mines, led to increase in coal stocks at power plants.

Brokerages continue to remain upbeat about the company's prospects. "We have, however, lowered our FY20/21 estimates and Earnings Per Share (EPS) estimate by 2.6 per cent/5.1 per cent to factor in low generation and a fall in the incentive income amid falling power demand. However, we continue to maintain our Buy rating on NTPC factoring its risk-averse regulatory business model, which ensures fixed Return on Equity (RoE) on its invested equity," says an analyst at Emkay Global Financial Services. ■

NTPC

→ **CMP: 90.9**

→ **PE: 6.81**

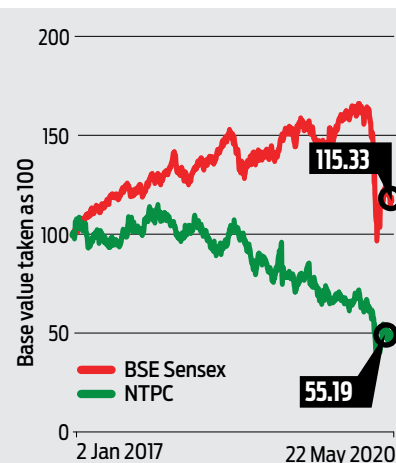
*As on May 22, 2020

Why Buy

- Continued capacity expansion bodes well with the investors
- Significant improvement in coal availability will hike operating profit margins

Watch Out For

- Extended lockdown could impact upcoming commercialisation plans



Financials

Net sales (₹ crore)		PAT (₹ crore)	
FY19	94837.75	FY19	11961.38
FY18	87201.80	FY18	10056.45
FY17	81342.90	FY17	10089.23
OP (₹ crore)		EPS (₹)	
FY19	21703.92	FY19	12.77
FY18	27615.91	FY18	10.66
FY17	22827.04	FY17	10.83

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

An Opportunity To Gain Market Share

Britannia Industries to benefit post pandemic

While analysts expect India Inc to report a muted fourth quarter (Q4) earnings, they also feel Q1 FY2021 could be the best time to accumulate quality stocks of the companies based on a scenario post the lockdown. One such company leading in a food-products category is Britannia Industries. The company is into manufacturing and sale of biscuits, bread, rusk, cakes and dairy products both in India and abroad. Analysts believe that even as packaged food industry, especially biscuit, is facing supply chain issue due to nationwide lockdown, Britannia is going to be one of the major beneficiaries once the situation stabilises.

"Nearly 80 per cent of Britannia's turnover comes from biscuits, which is an essential category, is less impacted during the nationwide lockdown. We note that during lockdown period consumers have resorted to up-stocking of essential items including packaged foods like biscuits," says an analyst tracking the company at Axis Securities. Today the company has an overall distribution reach of above 5.5 mn outlets. Out of these it reaches directly to 21.7 lakh retail outlets and approximately 21,000 dealers as on Q3 FY2020.

On the financial front, the company's sales and Profit After Tax (PAT) clocked a Compounded Annual Growth Rate (CAGR) of 6.42 per cent and 9 per cent over FY2016-19. For the Q3 FY2020, the company's revenue rose 4 per cent at ₹2,936 crore, whereas net profit was up by 24 per cent at ₹373 crore.

"The company, in last five years, has seen its operating cash flow grown at 12 per cent CAGR and Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) margin has almost doubled to 15.7 per cent. Have negligible debt with debt/equity of 0.04x and has good cash position of ₹850 crore as on FY2019," says an analyst at Geojit Financial Service

Post lifting of the lockdown, market experts believe, the company can witness opportunities to gain market share led by the distribution expansion in Hindi belt, premiumisation of products as well as share gains from regional/local players who may witness the dent in their business due to COVID-19. "Its strong in-market execution capabilities and focus on driving premiumisation (though it has been pushed by another 1-2 quarters owing to coronavirus pandemic) are key growth drivers from a long-term perspective," says an analyst at Axis Securities. The recent stock underperformance and improving margin outlook provide a good entry opportunity for an investor's view and many brokerages, who remain upbeat on the prospect of the company. "Despite the continued struggle to grow revenues in FY20, market share gains were unprecedented. It reflects the company's strong execution capabilities in this challenging phase. Although new product launches will be slow in the near term, we believe company will bounce back in 2HFY21," says an analyst at HDFC Securities. □

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Britannia Industries

➔ **CMP: 3165.7**

➔ **PE: 55.41**

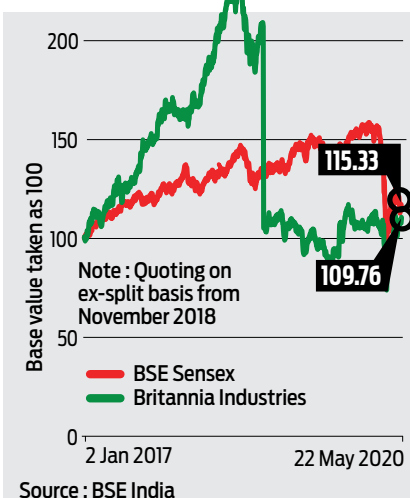
*As on May 22, 2020

Why Buy

- Company's market share gain reflects strong in-market execution capabilities
- Large distribution network with innovative products aided by strong brands bodes well for the investors

Watch Out For

- Slowdown can impact the company's distribution reach and margins



Financials

Net sales (₹ crore)		PAT (₹ crore)	
FY19	11054.67	FY19	1156.43
FY18	9913.99	FY18	1004.14
FY17	9054.09	FY17	884.33
OP (₹ crore)		EPS (₹)	
FY19	1939.87	FY19	48.24
FY18	1668.02	FY18	41.83
FY17	1428.72	FY17	36.85

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

HDFC Gilt Fund

Investment Strategy

Anil Bamboli is a competent and experienced manager with an overall experience of 24 years. He is supported by a highly experienced, adequately resourced, and stable investment team that adds to the fund's appeal.

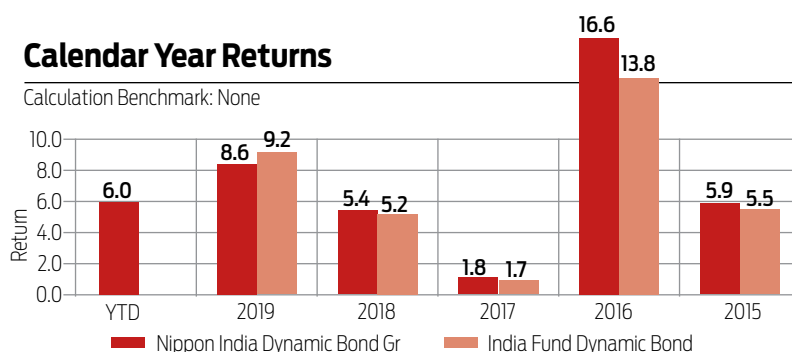
The fund's investment process is based on a comprehensive qualitative and quantitative due diligence process. Its assessment of inflation, money supply, private-government borrowings, fiscal and monetary policy, and the global interest-rate scenario leads to the selection of a duration target. In addition to duration management, yield-curve positioning and interest-rate direction calls form the basis of portfolio construction. Anil Bamboli follows an aggressive investment approach. Historically, the fund has maintained higher duration

as against its peers and has always stuck to the investment mandate. However, with the recent change in the fund mandate, it has the flexibility to change the maturity profile based on the manager's view on interest rates. The manager focuses on high-conviction trades rather than taking tactical bets. This is reflected by the fund's lower portfolio turnover ratio as compared with its peers. Furthermore, he does take marginal tactical trading bets whenever he identifies mispriced opportunities; however, exposure to these is kept in check.

The investment approach centres on building the portfolio by having government securities issued by the central government. Bamboli does not shy away from taking relatively small exposure in state development loans if they are trading at attractive yields

Calendar Year Returns

Calculation Benchmark: None



Trailing Returns

Data Point: Return Calculation Benchmark: None

	YTD	1 Year	3 Years	5 Years	10 Years
HDFC Gilt Gr	4.90	11.66	7.27	7.94	8.23
India Fund Government Bond	4.93	12.92	6.99	7.59	7.50

Fixed-Income Statistics

Fixed Inc Style Box (Long)	High Mod
Average Eff Duration	-
Average Eff Maturity	6.1
Average Coupon	7.6
Average Price	104.7

Fixed Income Style Box

			High
			Med
			Low
Ltd	Mod	Ext	

Top Holdings

	Portfolio Weighting (%)
7.17% Govt Stock 2028	15.33
7.26% Govt Stock 2029	13.52
6.79% Govt Stock 2029	6.57
6.79% Govt Stock 2027	4.72
7.59% Govt Stock 2026	4.60
6.97% Govt Stock 2026	4.15
8.60% Madhya Pradesh SDL 2023	3.28
8.59% Andhra Pradesh SDL 2023	3.27
8.21% HR SDL Spl 2023	3.24
8.61% UP SDL Spl 2022	2.46

Fund Snapshot

Morningstar Category	India Fund Government Bond
Fund Size (₹)	16.5 billion
Inception Date	25/7/2001
Annual Report Net Expense Ratio	0.90
Morningstar Rating Overall	****
Manager Name	Multiple
Minimum Investment (₹)	5,000
Morningstar Analyst Rating	Bronze

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ICICI Prudential Bluechip Fund

Manager Biography And Fund Strategy

Anish Tawakley and Rajat Chandak jointly manage this fund. The investment team is remarkably large and collaborative, comprising 10 research analysts and 12 portfolio managers.

The portfolio managers ply a benchmark-conscious strategy, and sector weightings are aligned to those of the IISL Nifty 100 Index, subject to a deviation of plus or minus 5%. Hence, the top-down approach has little relevance. They use the in-house large-cap model portfolio as the initial reference point when choosing stocks. Although the managers also use the firm's internal fair value approach and the alpha alert, the model portfolio remains the most important part of the security-section process. Within a sector, the managers perform business analysis to identify the best ideas. In addition, they use free cash flow/enterprise value ratio (three-year average) as an appropriate parameter,

along with price/book value and return on equity, among others, to determine a company's fair value. Typically, the fund will invest only in the top 100 stocks by full market cap. The managers have a quality bias when choosing stocks: They favour companies with robust business models, strong entry barriers, and the ability to scale up without eroding profit margins. They follow a barbell strategy and either end up paying more for high-growth stocks; and at the same time focus more on attractive valuations.

This is a true-to-label fund and maintains about 80%-90% of assets in large-cap stocks. The portfolio has historically been well balanced across sectors. The portfolio managers follow a benchmark-conscious approach and align portfolio sector weightings to those of its benchmark, IISL Nifty 100 Index. While it could be viewed as constraining, it also reduces the risk of underperformance in the fund.



Portfolio Date:
30/4/2020

	%
Basic Materials	7.4
Consumer Cyclical	9.3
Financial Services	30.9
Real Estate	0.0
Consumer Defensive	10.2
Healthcare	3.3
Utilities	4.8
Communication Services	6.5
Energy	10.9
Industrials	4.7
Technology	12.0
Total	100.0

Top Holdings

	Portfolio Weighting (%)
HDFC Bank Ltd	9.26
Infosys Ltd	7.25
ICICI Bank Ltd	6.19
Reliance Industries Ltd	5.89
Bharti Airtel Ltd	5.76
Axis Bank Ltd	3.66
Housing Development Finance Corp Ltd	3.24
SBI Life Insurance Co Ltd	3.09
ITC Ltd	3.00
NTPC Ltd	2.96

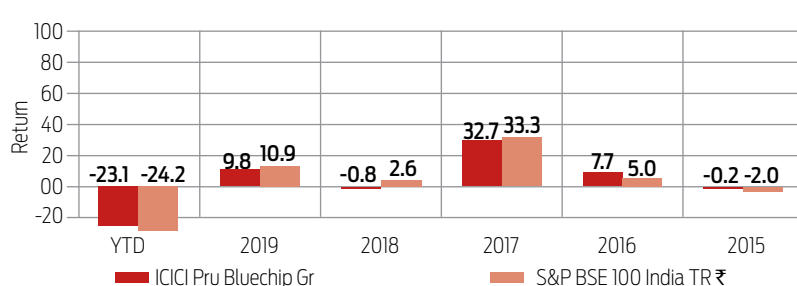
Fund Snapshot

Morningstar Category	India Fund Large-Cap
Fund Size (₹)	218 billion
Inception Date	23/5/2008
Annual Report Net Expense Ratio	2.13
Morningstar Rating Overall	****
Manager Name	Multiple
Minimum Investment (₹)	1,00
Morningstar Analyst Rating	Bronze

Data Source: Morningstar India

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
ICICI Pru Bluechip Gr	-23.11	-19.13	-1.10	3.15	9.62
S&P BSE 100 India TR ₹	-24.21	-20.69	-0.54	2.94	7.65

Nippon India Large Cap Fund

Manager Biography And Fund Strategy

Sailesh Raj Bhan joined Reliance (now Nippon India Mutual Fund) in 2003. He took on the role of a portfolio manager at the fund company in 2004 and has since gained considerable experience running diversified and sector funds.

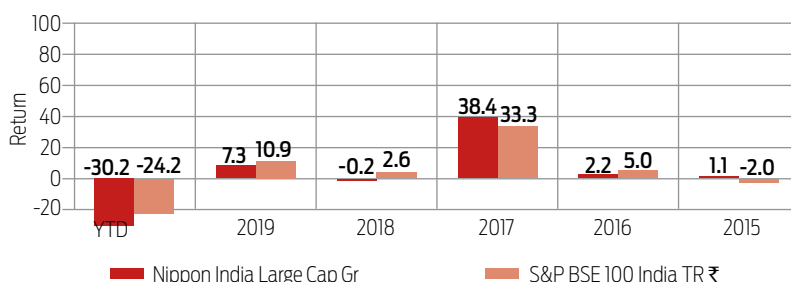
Sailesh Raj Bhan plies a growth-at-a-reasonable-price strategy. Typically, he prefers companies with healthy or rising ROEs. He doesn't mind paying more for a stock if he believes it has sustainable advantages and good growth prospects. But he is not indifferent to valuations. Bhan pays heed to qualitative issues when evaluating a company. He uses fundamental research to scout for companies with sustainable business models, strong management teams, and durable competitive advantages.

The top-down approach isn't ignored as factors such as interest rates and currency movement are considered. Bhan works closely with analysts who maintain discount cash flow or relevant quantitative models. Sell-side research is used, especially in the large-cap space where adequate coverage is available. At its core, the process is uncomplicated. However, Bhan's research-orientation gives the process an edge over a typical growth-oriented approach. Taking cash calls is not a part of the strategy.

Sailesh Raj Bhan is benchmark-aware, but he takes reasonable sector deviations if his top-down view suggests so. Hence, he scouts for businesses which are established, have a track record, or have dominance in their area.

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
Nippon India Large Cap Gr	-30.24	-29.36	-4.78	0.70	8.32
S&P BSE 100 India TR ₹	-24.21	-20.69	-0.54	2.94	7.65



Portfolio Date:
30/4/2020

	%
Basic Materials	4.1
Consumer Cyclical	11.4
Financial Services	26.7
Real Estate	0.0
Consumer Defensive	9.4
Healthcare	6.7
Utilities	4.8
Communication Services	3.1
Energy	13.2
Industrials	11.7
Technology	8.9
Total	100.0

Top Holdings

	Portfolio Weighting (%)
ICICI Bank Ltd	6.55
ITC Ltd	6.00
State Bank of India	5.41
HDFC Bank Ltd	5.08
Larsen & Toubro Ltd	4.82
Infosys Ltd	4.79
Axis Bank Ltd	3.84
Reliance Industries Ltd	3.79
Bharti Airtel Ltd	3.13
Hindustan Petroleum Corp Ltd	3.13

Fund Snapshot

Morningstar Category	India Fund Large-Cap
Fund Size (₹)	99 billion
Inception Date	8/8/2007
Annual Report Net Expense Ratio	2.28
Morningstar Rating Overall	**
Manager Name	Multiple
Minimum Investment (₹)	100
Morningstar Analyst Rating	Bronze

Data Source: Morningstar India

Your Money In Pandemic Times

Episode-1: should I continue with my SIP or pause them?

Outlook Money has launched a new special series titled “Your Money in Pandemic Times” in which we try to answer some crucial questions like how Coronavirus pandemic has disrupted the way we invest, where we should put our money and what we should do with our SIP investments.

In the inaugural episode of the series, brought to viewers by Mirae Asset Mutual Fund, Outlook Money Editor Arindam Mukherjee had an insightful conversation via video-conference with Swarup Mohanty, CEO, Mirae Asset Investment Managers, on some significant questions related to SIP investments during these disruptive times.

Mohanty said that while there is a lot of talk about people discontinuing their SIPs, the last month’s data showed that there was only a three per cent dip “which means the noise is a little more than what is happening really”. He said we need to wait a few months to come to a conclusion.

“The concept of SIP started with a goal and when such abnormalities happen, the thought of discontinuing SIPs is bound to come in the mind of investors. But volatility is the best friend of an SIP investor and these are the best times of the journey for all investors.

It is in these times that the SIP gets the biggest benefit of

rupee cost averaging. They start accumulating units at far cheaper prices than in normal times. And when you expand that over a period of time, this accumulation of units at lower prices starts giving results over a long period of time,” the Mirae Asset CEO said.

He added that if one has to create wealth, they need to remain focused on the process “which says that we should remain invested”.

According to Mohanty, every crisis has a start date and an end date and the world picks up very fast after a crisis is over.

“While fear is a factor, but the bottomline is that while there may be some kind of slowdown, it brings its own opportunities,” he explained.

Asked what people should do with their SIPs in case of a job loss or other cash-flow problems, he said while it is reasonable to pause the SIP, it would delay the achievement of the goal.

“However, in such a situation, it is the prudent and rational thing to do. The non-rational thing would be to redeem the SIP. That should be the last resort. Stay invested as far as possible,” he said.

Mohanty added that while pausing the SIP during this period, one must be aware of the risks involved like how it would shift the period of achieving the goal, and how that period would also be affected if the rebound of the market is very quick.

“These are the two risks when you pause the SIP. But one can top up their SIP when cashflow resumes to get back on track of their goal,” he added. ■





Episode-1

Your Money in Pandemic Times

Should I continue with my SIP or pause them?

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

SWARUP MOHANTY
CEO, Mirae Asset Investment Managers
India Pvt Ltd



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

How To Survive A Salary Cut Or Job Loss

Do not take hasty decisions and review financial goals and plans regularly, say experts

By **Vishav**

With the whole nation under lockdown for almost two-and-a-half months now, the wheels of the economy have been forced to a stand still, so much so that a recession is the most likely outcome. In such a scenario, many organisations have decided to take some drastic steps to reduce their operational costs, including salary cuts for their employees, and even lay-offs in certain cases. The travel and leisure industry and the media industry are the worst hit while no sector has been left untouched by this crisis. While some surveys predict two in five employees facing salary cuts, others indicate at one-fourth

of corporates already announcing pay cuts while many others actively considering such a step.

For those who now have reduced income due to pay cuts, while the same level of liabilities, the big question is of survival. With their financial planning turned upside down due to this new reality, it is time to revisit and re-plan their financial goals and explore new possible ways to achieve them.

According to Anurag Jhanwar, Co-Founder and Partner, Fintrust Advisors, COVID-19 has brought back peoples' focus on the importance of personal financial planning, within which the key focus today is on survival, with necessity taking precedence over other discretionary items. "With the

lockdown and closure of activities, there has been collateral damage to the widespread masses and as cash flows dry up, there is need for people to be very prudent with money and choice of spending," he says.

The principles of financial planning usually encourage and help clients in creating an emergency or contingency fund. Such a fund usually equals six months of family expenses. So, those who have their emergency fund in place are better off in these challenging times of lockdown.

Jhanwar says that in these times, it is critical for everyone to do budgeting exercise marking the expenses into discretionary and non-discretionary (essentials) categories. "One should do away with



discretionary spending completely in these times and prioritize the non-discretionary expenses. These are also the times when it is important to take your family into confidence while doing budgeting to avoid any kind of discontent later," he explains.

One question usually asked in such times is should one continue with their term plan and SIPs? According to Jhanwar, term plan (or pure insurance) is a must and one needs to continue the same. "Other investment policies should totally be aligned as per the cash flows. If cash flow permits, one should continue the SIPs."

At such times of crisis, it is very crucial to take financial decisions only after reviewing all options carefully, says Ankur Choudhary, Co-Founder, and Chief Investment Officer, Goalwise.com.

"Go over all your expenses and eliminate or postpone everything that is not essential. This should offset a good part of the salary cut. Those who have been laid off, if you had built an emergency fund, give yourself a pat on the back, and go ahead and use it," he said.

For those who didn't build an emergency fund, Choudhary advises considering liquidating some of their investments starting with some risky investments like stocks and equity mutual funds, in addition to fixed deposits and debt funds in order to avoid skewing the portfolio asset allocation.

"Avoid taking a personal or credit card loan at all costs. Seek help from your family and friends. We don't know how long this situation will last and you don't want to be caught in a debt trap because of this," he advises.

According to financial educator Mrin Agarwal, Founder Director of Finsafe India and Co-founder of Womantra, those who have received pay cuts need to have a relook at their expenses and try to live frugally.

ANURAG JHANWAR

Co-Founder and Partner, Fintrust Advisors



With the lockdown there has been collateral damage to the widespread masses

"They will need to relook at their financial goals and may need to rework on the same. For example, if someone was looking to purchase a house in the next couple of years, they will have to delay or drop the goal for now. The immediate priority is to ensure that essential expenses are met and savings is built for the next few months," she explains.

For those who have taken loans and have the burden of paying EMIs with a reduced income, she recommends trying to get their loan repriced and possibly replacing the

existing loans with cheaper loans.

"For example if a person has a personal loan then one may consider taking a gold loan since it would be cheaper. Further, they should create a plan to pay off non-essential loans while maintaining enough liquidity," Agarwal adds. One must focus on financial security by building an emergency corpus, ensuring that they have adequate life and medical cover.

"Focus on increasing savings by reducing expenses and do not forget to review financial goals and plans regularly. I find people are looking at short-term needs and not planning for the long term. There should be a good balance of both," she opines.

While times are tough, but those who are facing the brunt of this must remember that this is a temporary situation and economies will bounce back and therefore, the primary financial objective should be to weather the storm with minimal impact. Before the pandemic gripped the world, most people had financial plans and



goals for the immediate and distant future. A salary cut or loss of a job may have hampered these plans to certain extent.

According to Harsh Jain, Co-founder and COO, Groww, with reduced or no source of income, the first thrust can be towards redeeming investments to make liquid cash available for emergencies during such situations. However, he cautions against panic selling as it would only do more harm than good. He advises them to take a step back and revisit their personal finances and investments.

“Create a new budget according to the current situation. Lesser income, rising prices, and uncertainty about the future can render the earlier budget ineffective. Hence, everyone must create a budget based on this situation to manage their finances effectively. Knowing the new set of ‘needs’ and ‘wants’ will help create an emergency

fund accordingly too,” he explains.

Jain also advises rebalancing the risk element of the investment portfolio since before the lockdown, every investor had a specific risk tolerance that would have changed post these two-and-a-half months of lockdown.

Especially for those who have lost a whole or part of their regular income, he suggests setting up a systematic withdrawal plan to get regular income instead of redeeming

AAMAR DEO SINGH

Head Advisory,
Angel Broking



Treat and protect your capital as a scuba diver would protect his oxygen supply

all investments at one go which can be counterproductive in the long run.

“If the individual is facing a salary cut but still has some amount left for investments, then he or she can consider investing in liquid funds for their minimal capital risk, the efficiency of returns, liquidity, and minimal entry or exit loads,” Jain adds. “In a nutshell, experiencing a salary cut or job loss should not deter people from their financial goals. However, they need to align themselves with the changes that this crisis is ushering in.”

Jashan Arora, Director, Master Capital Services, agrees and adds that with this disruption, it is a time to revisit financial plans and re-evaluate the risk profiles as this situation might have changed one's ability to take and absorb risk.

“Financial goals need to be weighed and checked and priorities need to be set out again and thus investment realignment is required.



Management of debt needs should be looked at with utmost priority as well. This situation has given every individual an opportunity to look deeply on the spending as at this time only one can assess the discretionary spending and check whether that spending is really needed even after this pandemic is over," he advises.

There is a financial planning rule of thumb that says that one should have at least six months of monthly expenses parked in an emergency fund for unforeseen circumstances like the one we are witnessing now. In the sectors that are directly and severely impacted from this pandemic, there are some companies, which did not let the effects pass on to its employees yet. According to Arora, those who are lucky to be among them should see it as a lesson to accumulate an emergency fund to prepare for any unforeseen events like job cuts or loss by saving their discretionary spending which they would have otherwise spent on eating out, shopping or travel.

"Also, one should seek to utilize this spare time to upskill oneself, as this would help you to make yourself an important asset to your company," he adds.

One good news for those whose income is affected because of this crisis is that the Reserve Bank of India (RBI) has allowed banks to offer a moratorium on fixed-tenure loans anticipating the impact of the pandemic on the economy and possible job losses or salary cuts. If one has lost their jobs or experienced a huge salary cut making EMI payments very difficult, then they can opt for this moratorium facility and push the loan repayment schedule back by six months, Groww COO adds.

"It is important to remember that he or she will have to pay these installments later and also pay the interest for the moratorium



- **Create a new budget according to the current situation**
- **Cut down on all your discretionary expenses**
- **If you built an emergency fund, this is time to use it**
- **If you don't have emergency fund, consider liquidating some of your investments**
- **Use a systematic withdrawal plan to get regular income**
- **Avoid taking a personal or credit card loan**
- **Use EMI moratorium only if necessary**
- **Check if you can get your loan repriced**
- **Seek help from your family and friends**

HARSH JAIN

Co-founder and COO,
Groww



Lesser income, rising prices, and uncertainty about future can render earlier budget ineffective

period. However, this relieves him of the pressure of having to pay the EMIs during these difficult times," Jain explains.

For those who invest in the stock market, there is a need to take a cautious and calculated approach in the present uncertain scenario, as markets, both globally and locally, are still digesting negative news flows, according to Amar Deo Singh, Head Advisory, Angel Broking. He recommends a hard and rational look at one's existing portfolio.

"Culling out non-quality stocks, which are faced with difficult scenarios in the coming future, should be number one priority. Secondly, ensuring that the portfolio is not overweight on any specific sector, particularly the financials, as this sector could face the brunt of the ongoing COVID-19 environment. Also, investors need to adopt a wait and watch approach, in case they are unable to fathom the current market conditions, as there is always another day, and there is always another opportunity. Lastly, not risking all of the money in any single stock is definitely advice worth paying attention to, as many a time, some investors bet it all on one stock, and then leave it to the "lady luck" to decide their fate, which is never a good idea," he explains.

For those who may not have had a salary cut but are working in sectors which are adversely affected like tourism, hospitality and media, he advises not to take rash decisions while investing, which one may regret later.

"Treat and protect your capital as a scuba diver protects his oxygen supply. And lastly, learning to live with uncertainty and volatility, is something that everyone needs to get accustomed to, as the current ongoing crisis does not seem to be going away anytime soon," Singh concludes. ■

vishav@outlookindia.com

Sugar, Spice All Things Not So Nice

In an alarming scenario of diabetic growth, explore the usefulness and caveats of diabetes insurance plan

By **Sampurna Majumder**

By the end of 2019, a certain type of virus was identified in Wuhan, China. Thereafter, it spread rapidly in the country and soon spread globally resulting in a worldwide pandemic. Now, as a disease COVID-19 can range from being mild to severe and in many cases resulting in deaths. This is more common in individuals with pre-existing health conditions like diabetes.

As of May 2020, the virus has caused thousands of deaths all over and has forced countries to go into lockdowns for weeks, stalling economic activities.

While the entire world is grappling with the novel coronavirus, yet another disease, which is emerging as a pandemic by 2025 happens to be—diabetes. Within less than a decade, three-quarters of the world's 30 crore adult population will be diabetic, of which a substantial percentage will be Indians.

AMIT CHHABRA

Head of Health Insurance, Policybazaar



If diabetes runs in the family, then you may opt for a diabetes-specific plan

Several studies have found that diabetes, especially type 2, is increasing among urban affluent Indians. The usual suspects which lead to this condition are decreased physical activity, increased consumption of fat, sugar, and calories, and higher stress levels affecting insulin sensitivity and obesity. According to Cigna 360 Well-Being Survey India Report, a US-based global health service leader, the diabetic population in the country is close to hitting the alarming mark of nearly 7 crore by 2025 and more than 8 crore by 2030. Diabetes is known as a silent killer as it damages other organs of the body thus resulting in several rounds of hospitalisation over a period of time.

However, what is the reason behind such an unprecedented growth among diabetics in India?

"A rapidly-changing lifestyle can be attributed to an increase in diabetics in India. Less work-life balance, stress along with a sedentary regime has resulted in several urban Indians suffering from diabetes," says Jishnu Banerjee, senior endocrinologist, Columbia Asia Hospital, Kolkata.

Often referred to as a lifestyle disease, treatment expenses are substantially higher. This is also because, for a normal individual if it takes two to three days for a scratch or an injury to heal, for a diabetic to heal the same might take a good 10 days, sometimes even more. A diabetic often ends up spending ₹5,000 (sometimes more) every month on an average, which



Treatment expenses are substantially higher for diabetics

includes regular tests, medicines, insulin shots (for some), and a customised diet. Among other regular tests include annual or bi-annual eye check-ups, blood pressure check-ups, proper care for foot ulcers and many more. For example, Kolkata-based marketing professional Swaraj Mitra spends nearly ₹60,000 annually for his diabetes care. 65-year-old Mitra has been living with diabetes for almost 22-years and takes insulin shots daily. There are millions like Mitra who end up spending way more on medical expenses owing to a lifestyle disease like diabetes.

It is a fact that medical management of the disease and related complications are indeed critical. Also, dealing with the financial impact of diabetes is equally important.

So, what is the best possible solution? A general health insurance plan or a diabetes-specific health plan? Well, as



far as choices are concerned, experts vary in their opinions. If you and your family, (parents included) are covered by your employers' group health cover, usually in most cases, diabetes is included from day one. This is because, if diabetes is a pre-existing condition in you, chances of a regular plan being denied are higher or even if issued, a premium loading of over 25 per cent will be the clause. "While your first preference should be generic health

insurance; however, if diabetes is hereditary in your family, then you may opt for a diabetes-specific plan," says Amit Chhabra, Head of Health Insurance at Policybazaar.

Sharing his views on the same, Anuj Gulati, MD and CEO, Religare Health Insurance, says, "Since most insurance policies cover pre-existing ailments after a certain wait-period, one can opt for comprehensive health insurance before onset of any such medical conditions."

On the other hand, Sanjay Datta, Chief, Underwriting, Claims, Reinsurance and Actuary, ICICI Lombard General Insurance, says disease-specific insurance products can be opted by anyone. "However, it is an individual decision and one must assess the needs and then take a call accordingly," he adds.

In most cases wherein customers are not offered a general health insurance plan due to sub-optimal health conditions, a disease-specific plan can be of help. Also, as the world gradually starts embracing the 'new normal', rising inflation and lifestyle costs, managing expenses for the medication of this disease is not easy.

Nisha Jha, 45, a travel blogger from Mumbai has been living with diabetes for the past 10 years. She ends up spending nearly ₹70,000 a year to maintain her sugar levels. Since she travels a lot, sustaining a healthy lifestyle becomes quite a challenge. Jha, who takes insulin shots daily, carries her medicines, insulin cartridges, and blood-sugar testing machines for the entire travel period, which sometimes goes into months. "Always conscious of unforeseen happenings, I am constantly in touch with my doctor via Whatsapp," says Jha. When asked if she would like to consider a separate diabetic insurance plan, pat comes the reply, "Yes! If there's a good insurance plan available, I would

Best Available Plans For Diabetes Insurance

Plan Name	Age Limit (in years)	Sum Assured (₹ in lakh)	Annual Premium in ₹ (60-yr-old male)	Hospitalisation
Star Health Diabetes Safe Plan A/ Senior Citizen Red Carpet	18-65	Upto ₹50	₹21,240	Yes, included
ICICI Pru Diabetes Care Activ	25-60	Upto ₹10	₹15,385	Yes (in typical cases)
Apollo Munich Energy Plan	18-65	₹2-10	₹30,291	All including hypertension
National Insurance Varistha Mediclaim	60-80	₹1-2	₹4,200	Only up to 20% covered
Religare Health Care Freedom	18 – no upper age	Up ₹5 lakh	₹23,732	Yes, including day care

Source: Policybazaar

love to explore. Getting medical assistance at the right time is the objective."

A policyholder can avail certain benefits if he or she chooses to opt for a diabetes-specific insurance policy. Buying such a plan that provides coverage from day one, may be suitable for someone who is already living with the disease like Jha or Mitra. "Since diabetes has many facets to its management including a changed lifestyle, a separate comprehensive plan might come to the rescue," says Banerjee. Highlighting some of the benefits of such a plan, Gulati of Religare says, keeping in mind the importance of periodic health assessments for diabetics to ascertain their state-of-health, such plans also offer relevant health check-up packages. "Furthermore, these plans come with shorter wait-periods for covering pre-existing ailments. Some insurers offer customers discounts on pharmacy purchases and diagnostic

NISHA JHA (45)

What does she do: Travel Blogger

City: Mumbai



India Diabetes Data

- As of 2018, India has over 7.29 crore diabetic patients
- By 2030 the number may shoot up to 100 crore
- Nearly 47% are unaware of their condition
- Nearly 11% remain untreated of the disease

Source: WHO; ncbi.nlm.nih.gov

examinations within their associate or partner network," he adds.

While ever-changing lifestyles and with more options at disposal, individuals are opting for disease-specific plans, however such plans, (in this case diabetes-specific) also come with certain caveats. Most experts opine that diabetic-specific plans are more expensive. Says Datta, "While covers will be specific

to the needs of the policyholders, however, disease-specific products are usually priced higher than general health insurance and hence customers must bear in mind the premium as well."

For example, a 40-year-old (male) opting for Star Health's Diabetes Safe Plan A (see table) will have to pay nearly 89 per cent more than a regular policy. Keeping in mind the expenses involved, especially the trying times that we are going through, most industry experts suggest opting for riders. Riders can help policyholders protect the sum insured to cater to multiple claims or even higher sum insured requirements on account of multiple claims.

Finalising the right policy is of significance as few diabetes insurance plans include both – Type 1 and Type 2 diabetes. Ensure that you read the exclusions in the plan also understand that claim settlement process. Do remember to check for any extra benefits such as dialysis cover or companion benefits. "We advise policyholders to go through detailed terms and conditions for a better understanding and then choose. Be particularly careful about co-payment clauses and applicable sub-limits on room rent along with other specific ailments," adds Gulati.

Usually, regular health insurance plans have two to four years' waiting periods for pre-existing medical conditions. In case you are covered by your employer's group insurance, opt for general health policy as it will have a cover even during the waiting period. Otherwise, a diabetes-specific cover is a good idea. Such policies stereotypically offer coverage from day one or come with short waiting periods. For example, Star Health's product funds dialysis costs of up to ₹1,000 per sitting for 24 months. On the other hand, Apollo Munich offers a discount of up to 25 per cent on renewal premiums in case the policyholder's strictures abide by its pre-decided health chart.

However, policyholders need to cross-check with co-payments and



sub-limits as Gulati points out. For instance, Religare's diabetes-specific policy imposes a 20 per cent co-pay, which increases by 10 per cent per claim once the policyholder crosses 70. Similarly, Apollo Munich's Energy plan postulates a two-year waiting period for pre-existing diseases apart from diabetes and hypertension.

In an ideal situation, an adult should consider buying a generic or independent health insurance plan when young. And if you are past that age, make sure that you buy

Effects Of Diabetics On Body

- Increased risk of stroke
- Increased risk of heart diseases
- Visual disturbances
- Increased thirst
- Lack of energy
- High blood pressure
- Excessive urination
- Dry, cracked skin

Source: Medicalnewstoday

a dedicated cover as soon as you are diagnosed. It would be rather wise for young adults, non-diabetic individuals to invest in a health insurance plan early in life that covers a wide range of ailments, especially those who have a family history of diabetes.

Before wrapping, it must be noted that while availing a health insurance plan (disease-specific or no disease-specific) early in life is always a wiser choice. On the other hand, as far as diabetes is concerned, leading a healthy lifestyle including regular exercise and a wholesome diet can go a long way. Too much sugar and spice are certainly not nice! ■

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Inflation (April)	5.84%
Interest/Bank Rate	4.25%
Repo Rate	4.00%
Reverse Repo	3.35%
Bank Lending Rate	9.40%
Savings Deposit Rate	2.75% - 3.50%
Term Deposit Rate >1 Year	5.70% - 6.00%
Current A/c Deficit (CAD)	0.2%
Fiscal Deficit 2018-19	3.39%
Estimated Fiscal Deficit 2019-20	3.30%
GDP Growth Rate -December'19 Qtr	4.7%
GDP (Trillion): Nominal	\$2.94
Gross Savings Rate	30.10%
Per-Capita Income (FY 2020E)	INR 11,254 Monthly
INR/USD	75.66
INR/Euro	82.68
INR/Pound	92.59
Nifty	9,066.55
Sensex	30,818.61
Nifty PE	21.16
Sensex PE	19.25
Gold Rate (MCX)	40,989

Source: RBI, Government Data, AceEquity

Paradise Often Evicts Plebeians

Certain types of mortality rates are excluded by term insurance plans

By Aparajita Gupta

Owning responsibilities of family members is very crucial in life, which one has to ensure during one's very lifetime. That is the space where term insurance plays a decisive role. However, people are often ignorant of the kinds of deaths term insurance does not cover under its purview.

Term insurance plans are bought to take care of family members during the policy owner's death or in the unfortunate incident of permanent disability.

Not all kind of deaths are covered under term plans, there are certain exclusions, which could lead to claim rejection and one must read it carefully before buying the policy.

Popularity of term insurance continues to be relative. While it has gained some popularity in the last five years or so, yet penetration is only about 24 per cent for the urban markets.

Sharing her views on this very trend, Gayathri Parthasarathy, National Head, Financial Services, KPMG in India, says that term insurance in India has an extremely small market and constitutes ~5 per cent of the new business premium in the retail segment. The penetration of term insurance is extremely low owing to lesser awareness levels. Term plan stems from the original concept of life insurance where one pays a premium to safeguard income for dependents in case of death.

Not all kinds of deaths are covered under term insurance plans



This type of insurance plan is availed by both service people and business persons alike. "Service people or professionals take this as this is the cheapest insurance and also most flexible; where people are moving cities or countries during their work, term plan becomes flexible and not a burden," says Shweta Jain, CEO and Founder, Investography.

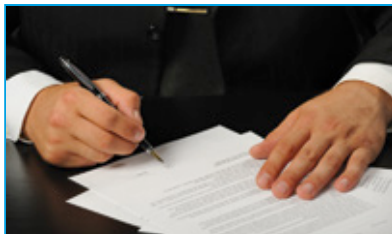
Term insurance assures a family financial protection after sudden death. However, there can be circumstances where if something unfortunate happens to you or you suffer from any critical illness, which results in huge financial loss. Under such situations, your insurance rider comes in.

"One should always look for riders while buying a term plan. Riders are basically add-ons to your basic term policy and work as a tool to boost your insurance coverage without having to buy a separate policy altogether. However, one does not need to buy all the riders because as a policyholder, it is very important for you to choose the right riders that make sense for you," says Santosh Agarwal, Chief Business Officer, Life Insurance, Policybazaar.

In case of death due to an accident, the sum assured of the accidental death rider is payable in addition to the normal term insurance death benefit.

This rider when added to base insurance plan makes it the most economical way of protecting against major life-threatening diseases like cancer, heart attack, organ-related diseases and stroke.

Any life insurance policy that is worth buying is also worth keeping. However, there can be circumstances where one becomes disabled due to any accident or get diagnosed with critical illness leading to inability to pay future premium. Under any such situation,



Before Buying A Term Plan

- **Insurance should be bought only if someone's life is be badly affected in your absence or there is some financial dependency**
- **Buy adequate amount of insurance rather than underinsuring or overspending on insurance**
- **Be extra careful if you smoke. Look at the exclusions carefully; declare facts truthfully**
- **If you are involved in adventure sports, know the exclusions carefully**

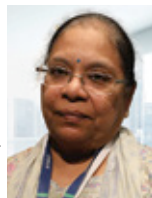
Source: Finscholarz

all future premium will be waived off till the end of the term rider.

This rider kicks in if the assured becomes permanently disabled due to an accident as all accidents does not always result in death. If the life assured becomes permanently disabled in an accident, then she is

GAYATHRI PARTHASARATHY

National Head, Financial Services, KPMG in India



Term insurance plan has an extremely small market in India

paid the sum assured Gayathri says the key aspects to look for when choosing a term plan are -- the claims settlement ratio of the insurer and review on the convenience of the claims process, the premium that one is paying for the sum insured, the critical illness riders provided, the sum insured value, which should adequately cover in case of any unfortunate incident and the adequacy of the policy tenure.

However, there are several kinds of deaths, which are not covered under term insurance. As Renu Maheshwari, chief executive officer and principal advisor, Finscholarz Wealth Managers explains, suicidal deaths are usually not covered during the first year of policy. A lot of policies do cover it from second year of the policy though. If the insured dies due to his involvement in criminal activities, the nominee will not get the money. Criminal's death due to other causes will be compensated to the nominee though.

"The beneficiary cannot file for the claim if the insured is involved in any criminal activity and dies owing to the same reason. The insurance company is not liable to settle the claim if the insured is murdered because of his involvement in any kind of criminal activity. 'Death due to the involvement in any type of criminal activity as defined by law' will not be covered under the term policy. However, in case policyholder holds a criminal record and dies due to any natural uncertainty or covered cause, then the beneficiary will get the sum assured," confirms Agarwal.

However, then what happens if the nominee has a criminal record? In such cases, the insurance company holds every right to withhold the payout indefinitely. The claim will only be settled when the nominee will be given the clean chit from the case and the charges.

The suicidal exclusion is applicable for the initial one-year



Checklist For Choosing A Term Plan

- Claims settlement ratio of the insurer and review on the convenience of the claims process
- The premium that one is paying for the sum insured
- Critical illness riders provided
- The sum insured value, which should adequately cover in case of any unfortunate incident
- Policy tenure's adequacy

Source: KPMG

period from policy purchase date and thereafter suicidal deaths are covered in a term policy. In order to control the moral hazard risk, most life insurers cover suicidal death after the initial period of a year. Therefore, if the insured commits suicide within the first year of the policy term, then the nominee will not get the death benefit, subject to terms and conditions. In a group insurance policy, the suicide is not covered due to the reason that these policies have the tenure of one year and suicide is usually covered under the life insurance policies after the completion of one year.

Further Maheshwari explains that death happening due to the effects of alcoholism are also excluded.

Insurance companies do not issue policies to alcoholics. It is a material fact to be disclosed while buying the policy. Drug abuse is also an exclusion in term policy.

"When the policy holder did not

SANTOSH AGARWAL

Chief Business Officer,
Life Insurance,
Policybazaar



If someone already has term insurance plan, then death due to childbirth will be covered

disclose his/her habit of smoking and died due to reasons related to that, the nominee will not get the sum assured of the plan," she adds.

"Most life insurance companies do not issue term life cover to the people who drink more often and therefore death under the influence of alcohol or any other narcotic substance is not covered. In case the policyholder has not disclosed the drinking habit and dies under the influence of the same, then the insurance company holds every right to reject the claim," says Agarwal.

Adventure enthusiasts and persons involved in hazardous activities are usually excluded from the term policy. Activities like chasing a hurricane, rafting, paragliding come under this clause. There can be separate special policies for such people.

"All pre-existing health conditions should be declared. Death due to pre-existing health conditions like HIV or AIDS is not covered," Maheshwari confirms.

Also, death during childbirth is usually not covered in life insurance. Though pregnancy-related treatments can be covered under health insurance.

"Life insurance companies usually do not issue policy to someone who is five-months pregnant. However, if someone already has the term insurance, then death due to childbirth will be covered and the payout will be given to the beneficiary," says Agarwal.

Life insurance may not cover death due to natural disaster such as earthquake and flood.

"Wars and catastrophic disasters are usually an exclusion. These clauses need to be looked at carefully while buying the policy," says Maheshwari.

While availing a term insurance is important, it is very crucial to look into the various pros and cons before investing in it. ■

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Episode-1

Your Money in Pandemic Times

Should I continue with my SIP or pause them?

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

SWARUP MOHANTY
CEO, Mirae Asset Investment Managers
India Pvt Ltd

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AJAY BAGGA

Living Through The Market Cycles

Every cycle, every crisis and every bubble has its set of lessons to learn from

It was May 2, 1990. I had taken the first flight of my life, as I travelled from the City of Emperors, Delhi, to the City of Dreams, Mumbai, to take up my first assignment as a management trainee at a leading American bank's Indian headquarters. Rana Talwar and Jerry Rao had spearheaded the consumer banking revolution in Asia and India since 1985, and I was fortunate to be getting in at a very exciting time of heady growth, cutting edge innovations and immense learning in the bank's history.

The BSE Sensex (base 1979 = 100) was still in three figures. In July 1990, it touched 1,000 for the first time. In 20 months, as the world economy wobbled, India had a huge balance of payments crisis and the big bang reforms under the PV Narashimha Rao and Manmohan Singh combine. In those 20 months, the BSE Sensex went from 1000 to 4000. We were strictly regulated on what and how we could invest in, but all around us we saw people making fortunes.

Then, as suddenly, the entire market came crashing down, in what was to be called the Harshad Mehta scam. The paper fortunes made in the stock markets were lost. Many stocks lost all value and the market lost nearly 50 per cent of its capitalisation.

The next cycle I saw was in 1994 when nearly every large Indian corporate house had launched a financial/leasing subsidiary. The CRB scandal derailed the entire euphoric bubble.

It was 1998 and I was working on a global project at Bengaluru, an electronic salary account offer for corporate employees. We launched the first debit card and the first online banking for retail clients in India. The IT sector in India was booming; globally the dot com boom was happening.

All learned pundits were informing us that "This time it's different," 100x Price Earnings valuations were justifiable and the cash burn rate was more important than cash flow. We knew the year end of 2000 was going to be a big challenge due to the Y2K transition. That Y2K work transformed the Indian IT sector forever. While clients were partying in the most

exotic locales, my wife (who also worked for the same bank) and I were in the control room, waiting for the change of the millennium date. My ATM card was used to withdraw the first money of the 2000 millennium on the banks network in India. All went well, and the Indian IT sector's success story was embellished.

The euphoria was rising with the dot com valuations. Fraudsters were putting an "infosystem" or "dot com" in their company's names and encashing on the gullible public's herd mentality. Anything related to the internet was one gigantic bubble. The value investors like Warren Buffett were racking up losses in their old economy investments.

Value savant Julian Robertson of Tiger Management with a stellar track record, shut his six funds and returned the money to investors in March 2000. He wrote in his farewell note: "Since inception, an investment in Tiger has grown 85-fold net of fees; more than three times the average of the S&P 500 and five-and-a-half times that of the Morgan Stanley Capital International World Index."

The key to Tiger's success has been a steady commitment to buying the best stocks and shorting the worst. In a rational environment, this strategy functions well. But in an irrational market, where earnings and price considerations take a back seat, such logic does not work.

Technology, Internet and telecom craze, fueled by the performance desires of investors, money managers



Invest when you are happy with valuations and growth

and even financial buyers, is creating a ponzi pyramid destined for collapse. The only way to generate short-term performance is to buy these stocks.

The collapse came soon enough, wiping out trillions in investors' wealth. The NASDAQ had risen 400 per cent from 1995 to its peak in March 2000. Over the next two and a half years, it went down 78 per cent.

I have given this historical timeline to give you an idea of the boom-bust-boom cycles. Every cycle, every crisis and every bubble has its set of lessons. The need is to buckle up for facing the pandemic and its aftermath. The biggest lesson for me is that we should focus on our financial goals rather than trying to predict the short-term economy or markets. No one can do that consistently with any degree of accuracy. Based on those financial goals and our risk appetite and the time horizon for each of those goals, we arrive at our ideal asset allocation. Gold, silver, stocks, bonds, mutual funds, real estate, bank deposits, all have a role in this.

The entire financial advice industry would tell us financial planning is complex. It is a great discipline but at its core, it is about following simple principles consistently and resiliently.

What I can say is - a large portion of those serving clients from banks who sold high commission ULIPs and money back insurance bundles, to mutual funds who took inordinate risks and passed losses with no guilt to unknowing clients, to NBFCs who collected public deposits and siphoned off the funds to related, crooked cronies, to companies who padded project costs, took loans from banks and then systematically siphoned out the cash flows or ineptly ran the companies into the ground, to regulators who were supposed to prevent all these but were left behind with a fast moving industry - all these have given enough bitter lessons to ordinary investors' caveat emptor.

The antidote to this is diversification is spread your bets. In uncorrelated assets have 10 per cent of your portfolio in gold. Sovereign gold bonds are a great investment. Buy government bonds for fixed income exposure. Bank accounts are protected only up to Rs 5 lakh per account/ name, per bank. Stick to the highest quality banks, don't chase returns.

Mutual funds have left a lot to be desired. Stick to Index Funds and Index ETFs issued by the more venerable names in the fund industry. On stocks, buying low is still a recipe for disaster. Some turnarounds are happening as we have seen in telecom. Those are good bets. My personal expectation is that in the next six months we will see a huge correction in stock prices.

Invest in stocks when you are happy with the valuations and growth trajectory of earnings. Don't

As I Look Back At My Investment Journey From 1990 To 2020

- a. The best return for me was in a technology MNC ₹1 roughly became ₹3,000, without adding the dividends. This was fortuitous. 3,000 times returns is a once in a lifetime return. With dividends, the total return would be around 4,000 times.
- b. The worst return was with nearly 50 stocks that lost 99 per cent to 100 per cent value as promoter's duped investors and decamped.
- c. Gold went up 14 times, from ₹3,400 in 1990, to ₹47,000 per 10 gms by 2020.
- d. Silver over these 30 years gave a 7.5 times return, going from ₹6,400 per kg to ₹48,000 per kg.
- e. The best mutual funds in this time would be 27 year old Kothari Pioneer Bluechip and Prima funds that went up 80 to 100 times. Funds launched later on also gave good returns in these ranges.
- f. Land also gave great returns, with a land that my family bought going up around 250 times.
- g. Bank FDs averaged around 8.6 per cent in this period. Without taxes and assuming annual compounding, this would increase funds 12 times over 30 years.
- h. Inflation meantime was at around 6.4 per cent, so ₹100 of 1990 is worth only ₹15 in 2020. That severe loss of purchasing power is the cost of doing nothing with your savings.
- i. The BSE Sensex at the same time gave a return of around 13 per cent CAGR over these 30 years. Roughly 39 times before dividends. With dividends, the total returns would be around 45 times.

worry if we have missed the bottom or if you invest much ahead or too much after the bottom of this cycle.

The smartest managers like Howard Marks bought from the week Lehman Brothers went bankrupt in 2008. For months after that, there was turmoil till the markets bottomed and took off in 2009.

Maybe sometime by August to October if not earlier. When the price is much lower than the value you see, that will be the time to re-enter. Right now, the risk reward is still not very favourable.

Wait, stay diversified and be ready to jump in at the market lows that satisfy you. Simple, yes. Easy, well no. Hardly a few hundred investors succeed in this despite knowing the truth behind this advice. 📌

The author is a private investor

The way insurance sector works is changing, giving way to digital assessment, surveys and delivery

The way insurance sector works is changing, giving way to digital assessment, surveys and delivery

Like all other sectors that have seen large scale changes in their operations because of COVID-19 pandemic and the crisis that it has brought about, the insurance sector in India is seeing new ways of doing business. This is true of all the segments of insurance, be it life, health, automotive or general.

As the vast Indian population is working from home, insurance companies are discovering new ways of bringing insurance, policies, claims and surveys and settlement to people's doorsteps by bringing in new and innovative ideas. Many companies have relied on self

Says Balachander Sekhar, CEO, RenewBuy, an insurance aggregator, "Companies are moving towards a contactless service. Increasingly, the branch will become a prehistoric dinosaur. We are using a totally

MD & CEO,
Bajaj Allianz Life



contactless system where we sell through an app and issue the policy to the customer. Many other companies are also shifting to a contactless service during the pandemic so that the need for human intervention is minimized or totally eliminated”.

The current crisis has bolstered the adoption of digitisation and virtualisation in the industry. Both - customers and the companies - have moved to engaging and selling via digital tools. From WhatsApp to customer portals and Chat Bots, to having virtual meetings, the industry has moved quickly on this path to ensure that business runs even during these restricted times and that their customer contact remains intact.

Says Prashant Tripathy, MD & CEO Max Life Insurance, "COVID-19 induced social distancing has restricted human

interaction to non-physical touch points across the board. For the life insurance sector, which is traditionally dependent on bank branch walk-ins, agents, and customer meetings; enabling contactless servicing was the biggest challenge. But with companies continuously innovating their everyday operations to deliver a seamless customer journey, the way-forward is digital. Right from sales to new policy issuance to claims management – operations across the entire value chain have been digitised, which has signalled the biggest change in the way the industry conducts its business.”

To ensure that new policies can be issued to customers during this continuing time of lockdown with no physical contact, insurance companies have also digitised their sales processes to accommodate social distancing.

Says Dharendra Mahyavanshi, Co-founder Turtlemint, one of the country’s largest insurance aggregators, “The industry has changed a lot in terms of pre-COVID and post-COVID days, not only in the way that it functions or reacts but in the mindset of people as well. The focus on digitisation has been there for a while but now the demand, as well as supply-side, has come together to focus on it unanimously. So, digitisation is not in one aspect only, but it focuses on the complete channel for end-to-end resolution today.”

For some companies and products, the underwriting norms have changed in order to enable digital issuance of policies as well as claim servicing. Non-medical limits have also been enhanced. However, people with travel history or plans in negative geographies can face a postponement of policy issuance as India tightens its borders especially with countries with a bigger history of COVID-19 cases.

PRASHANT TRIPATHY

MD & CEO,
Max Life Insurance



From sales to policy issuance to claims management – the entire value chain is digitised

Says Ashwin B, Chief Operating Officer, Exide Life Insurance, “The life insurance industry was on a growth trajectory till February’20, which came undone due to the lockdown in the crucial month of March, which accounts for over 20 to 25 per cent of the annual business. However the Industry has been quick on its feet to adapt itself to the new normal of non-contact based selling, sourcing through electronic mode, enabling work from home for employees and intensified customer outreach through calls, emails and self-service options.”

But how has the pandemic affected growth of the insurance companies in the last three months or so? Says Tarun Chugh, MD &

CEO, Bajaj Allianz Life, “Demand has slowed and growth is muted or negative; similar is the trend within the life insurance sector as well. Let’s wait and watch how the government’s stimulus pans out and helps in reviving the economy and thereby businesses.”

In the 10 days of lockdown in March there was a dramatic drop in numbers from various insurers. Many insurers even registered a decline. Typically this industry was slated to grow at 12 to 14 per cent but many insurance companies declined in March to March. In April which was 30 days lockdown, there would be a significant impact.

Some put the figure at even higher. Says Rakesh Wadhwa, Chief Marketing & Customer Officer, Future Generali India Life Insurance, “As per the recent IRDAI report, life insurance business contracted 42 per cent for the month of April over last year as a result of the mandatory lockdowns. While this short-term adverse impact may persist, the medium-long term effect will depend upon how long the crisis lasts.

The crisis has given rise to increased demand for life and health



First Year Premium Of Life Insurers For The Period Ended April 30, 2020

Sl No.	Insurer	Premium			
		For April, 2019	For April, 2020	Growth in %	Market Share
1	Aditya Birla Sun Life	118.83	261.75	120.28	3.89
2	Aegon Life	8.18	3.72	-54.53	0.06
3	Aviva Life	5.40	19.02	252.05	0.28
4	Bajaj Allianz Life	218.63	314.04	43.64	4.67
5	Bharti Axa Life	49.46	29.59	-40.18	0.44
6	Canara HSBC OBC Life	183.74	27.05	-85.28	0.40
7	Edelweiss Tokio Life	11.16	16.46	47.52	0.24
8	Exide Life	37.65	25.26	-32.91	0.38
9	Future Generali Life	34.30	10.67	-68.90	0.16
10	HDFC Standard Life	1422.29	668.89	-52.97	9.94
11	ICICI Prudential Life	633.41	256.19	-59.55	3.81
12	IDBI Federal Life	21.44	6.92	-67.74	0.10
13	India First Life	149.04	32.68	-78.07	0.49
14	Kotak Mahindra Life	319.86	121.35	-62.06	1.80
15	Max Life	201.55	171.84	-14.74	2.55
16	PNB Met Life	72.56	43.80	-39.64	0.65
17	Pramerica Life	50.54	10.71	-78.81	0.16
18	Reliance Nippon Life	97.52	34.02	-65.12	0.51
19	Sahara Life	0.00	0.00	0.00	0.00
20	SBI Life	913.10	917.43	0.47	13.64
21	Shriram Life	26.29	13.73	-47.79	0.20
22	Star Union Dai-ichi Life	16.78	6.61	-60.63	0.10
23	Tata AIA Life	122.19	154.36	26.32	2.29
	Private Total	4713.93	3146.09	-33.26	46.76
24	LIC of India	5267.94	3581.65	-32.01	53.24
	Grand Total	9981.88	6727.74	-32.60	100.00

Source: irdai; **Note:** 1. Cumulative premium upto the month is net of cancellations which may occur during the free look period.; 2. Compiled on the basis of data submitted by the Insurance companies

insurance policies as people grow more concerned about health and treatment in case they too became victims of the coronavirus and that is a reason why people are diligently renewing their policies on time.

Says Chugh, "Two factors - how the pandemic is unfolding across nations and the volatility of global markets, have made customers more cautious and aware, and look for financial solutions with some guarantees. Hence, the demand for term and guaranteed plans will see an uptick in the coming months. Furthermore, we are seeing customers also look for comprehensive health insurance policies. We have seen this trend start in April."

While operational restrictions will have a short-term effect on growth, this unprecedented situation will create greater realisation amongst the community and shift the consumer focus towards safeguarding their financial future and loved ones.

Says Chugh, "Not only our industry, it will impact the way business is done across industries. I believe the pandemic has nudged the industry to adopt new practices more quickly than it would otherwise have, and some of these practices will stay on even after the pandemic."

Within the life insurance industry, the acceptance of digitisation and virtualisation, online selling, digital underwriting and video Medical Examiner's Report (MER), amongst other digital and virtual initiatives will become the new normal. For instance many insurers have shifted to tele-medical or video MER in place of physical screenings.

Says Tripathy, "The industry is coming together in its own way to navigate these extraordinary times. As payment of renewal premium may become a concern, all life insurers are offering 30 days'

additional grace period for renewal premium due in March and April.”

In addition to that, the Life Insurance Council has also issued a statement assuring all life insurance policyholders in India that the Force Majeure clause will not be applicable in case of death due to COVID-19.

Says Mahyavanshi, “The IRDAI has extended the deadlines for policy renewals with an extension in the grace period for continuity benefits. This would help the insured to be able to renew the policies even post-lockdown even if he doesn’t have access to online payment, and the insurer to be able to collect the renewal premiums to be able to pay the claims on time.”

It is obvious that the pandemic will change the way the industry works and how insurance is bought and sold. So far, insurance companies have been functioning in a traditional way and have provided access largely to large cities and towns. With the advent of InsurTech companies and aggregators a few years ago, insurance has been able to penetrate in Tier I, Tier II cities and beyond.

The aggregators have been able to offer multiple insurance products (car insurance, bike insurance, commercial vehicle insurance, health insurance and

DHIRENDRA MAHYAVANSHI

Co-founder, Turtlemint



Digitisation is not in one aspect, but focuses on the complete channel for end-to-end resolution

life insurance) of multiple insurers and hence offering a wider bouquet of products. Features like online quote generation, sharing the quote via SMS, email, WhatsApp, online payment and instant issuance of a policy is being done digitally without meeting the client.

But what about insurance policies that lapsed during the lockdown and the customer had no way of reaching an insurance office to renew or revive it and the online portals did not offer a way out? Of course the moratorium provided by IRDA did come as a relief for such customers as the renewals and revival of policies got a new lease of life through an extended date.

Says Chugh, “As customers understand the long-term nature of life insurance, we have observed that

they are keen to get their renewals paid. With the lockdown, they are leveraging the digital access points to pay their renewals. Companies, on their part, are going all out to communicate with their customers, and re-informing them about the digital assets, the benefits of being invested. Further, the regulator has also extended the grace period for payment of renewal premiums that were due in March and April. These sustained efforts have helped us manage our renewals.”

Some of the changes are that likely to happen in the future are:

1. Protection and health will become more prominent subject of conversations. This could mean introduction of new products and addition of services or benefits.
2. Acceleration of digital transformation – both at the back-end and front-end processes to gain higher efficiencies, speed and scale.
3. Customers will get more comfortable with ‘Phygital’ (Digital and Physical) ways to engage with insurers as social distancing norms will prevail.
4. Work from home among back office functions shall become a more prominent workforce solution as companies are seeing a positive impact on collaboration and productivity.
5. Changes in risk underwriting will find a balance between convenience to customers and covering new risk dimensions arising from COVID-19.

The entire way in which the insurance sector works will change forever giving way to digital assessment, surveys and delivery. This will be good both for the companies and customers as this will make things fast, more efficient and cost efficient. ■

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It Pays To Stay Invested In Equity

Focus on the financial goals instead of tracking short-term market movements on a daily basis



Dr DG Vijay, 54 years, is a senior oncoplastic breast surgeon at HCG Cancer Centre, Ahmedabad. His wife Dr Swati Devanhally works in the Department of Ophthalmology at BJ Medical College and is blessed with two sons, Shirdhar (27) and Shravan (23). In spite of his busy schedule, Dr Vijay has continued to stay focused on adopting a consistent investment strategy for the fulfilment of his financial aspirations. He met Sajni of Wealth First Portfolio Managers around 12 years back, just the time when the Global Financial Crisis had struck the markets, and the fall of Lehman Brothers had made the

sentiments bearish.

As the first step to financial planning, discussions were held with Dr Vijay enlisting his financial goals and the cushion for monthly savings. The financial plan was also prepared considering the investment horizon as well as his risk appetite. It was a pleasant surprise to know that amidst all the negativity, Dr Vijay was comfortable to invest in equity, as his financial goals were primarily long term, focused around his children and retirement planning. He understood the benefits of professionally managed investments and the power of compounding, an initial monthly SIP of ₹50,000 was

registered in August 2008 for long-term wealth creation, disciplined savings, and professionally managed investments.

Further, it was also planned that instead of focusing on the market movements, the investment portfolio would be reviewed on an annual basis. Further, to top up his savings and financial goals, it was advised that Dr Vijay must keep all the funds invested in equity funds, which were not expected to be required in the near term, say three years. Considering the recent correction in the markets, his return expectations from his investments in equity funds were 15 to 18 per cent.

Disclaimer

Financial Planning of Dr. DG Vijay is based on the "personal opinion and experience" of Sajni Aalok Patel 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.

However, a lot was waiting to happen in the coming times. Markets continued to be volatile during the next three to four years. At the end of three years, the portfolio XIRR was 8.34 per cent, which further dipped to 7.50 per cent by next year. Such underperformance of the investment, as against the return expectations, carried the potential of shaking his confidence in investing in equity markets and there was a time when he was unsure of his decision to continue the SIP. This was the time when Sajni's role as his financial advisor was tested to the core. However, she always cared to give a patient hearing to Dr Vijay's concerns and advised him to ignore the market noise and stay patient with his investments. Amidst the dilemma to continue and redeem, Dr Vijay continued his SIPs, and the investments started to bear fruits with time.

The performance of investments rose steadily, with 23 per cent XIRR over five years, which further increased to 27 per cent over six years. As years passed, his practice was also increasing. With the confidence rebuilding, he started increasing his monthly SIP amount and also investing as and when he had an investible surplus. His family's monthly SIP investment has increased multifold now from ₹50,000 in 2008 initially. While the equity markets suffered substantial market corrections in 2018 and also recently due to the COVID-19 outbreak, his regular savings are still reflecting 8 per cent annualised returns. Considering the total equity investment of ₹100 during the period, his portfolio is currently valued at ₹195, besides the dividend pay-out of ₹30 over the same period.

The consistent savings have also helped him fulfil several of his aspirations. Through the last decade and more, he has met the life

Disciplined long-term SIP investing, good selection of funds coupled with an annual portfolio review, and a lot of patience have helped him to be an actual long-term happy equity investor. He shared his learnings from the process, as outlined below:

- **Link your mutual fund investments to your goals:**

It is always advised that the mutual fund investments must be linked with financial goals. When one links the portfolio investments with specific financial goals, the motivation to continue investing in that goal comes naturally, helping the investors to save consistently towards the goal. The mutual fund schemes must be selected as per the specific goals, as different goals carry different emotional value and investment horizon. While equity may not be advisable for short-term goals owing to its short-term volatile nature, conservative schemes may not be suitable for long-term goals as they may lower the overall portfolio returns.

- **Review portfolio regularly:**

A prudent financial plan calls for not only consistent investing but also a regular portfolio review. One may review the portfolio on an annual basis along with his/ her financial advisor, so that the underperforming schemes may be identified and replaced with better performing schemes. Such a review also allows the investors to track the progress towards specific financial goals so that such goals can be achieved as per the desired time horizon. Any shortfall or deficit towards achieving such goals can be plugged by taking corrective action well in time.

- **It is important to ignore market noise and stay patient:**

One should not monitor the portfolio movements daily or weekly. This is because short-term movements in markets can be highly volatile with stocks reacting to different news, macroeconomic data. When the market sentiments turn negative, the surrounding market noise gathers high momentum. It is highly advisable that one continues to focus on the financial goals instead of short-term market movements. Most importantly, one must continue to have trust in his/ her financial advisor.

goals of the higher education of his sons and one son's marriage. With the comfort of financial savings, he has also been taking his family on vacation annually, helping him spend quality time with his family, amidst his busy schedule. This also makes him address Sajni as his lifestyle advisor, instead of just being his financial advisor.

The country continues to fight the ongoing coronavirus outbreak, and COVID warriors like Dr Vijay

are staying at the forefront of this pandemic crisis. While it is essential to stay safe and keep yourself in good health, all must stay committed to their financial plans and keep their investment portfolio healthy too. ■



Sajni Aalok Patel
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Wealth First Portfolio
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Dear Editor,

Hailing from a Delhi-based Punjabi family investments and business were always easy for me to understand. Like any other commerce student, I had two options either to appear for CA along with graduation course or wait till I completed B.Com to aspire for a banking career. I choose the first and in the next few years. While I was still 21 years, I became a partner in a CA firm doing tax practice and bank audits. After two decades of my stint in financial services, I am serving as Director and COO at Religare Broking, one of the leading diversified brokerage and distribution houses.

In my early youth, investments, banking, and politics were common everyday topics at home. I started my investment journey from my school days, thanks to my teacher who gave me my first lesson of investment in the stock market. My first investment experience was in SBI IPO with my father's money, which gave me good returns and hands-on experience in trading

I belong to a humble middle-class family that has quite a few bankers. My father has been my role model. His approach has always been a conservative and pragmatic way to manage financial investments. I started my journey of financial independence as early as I passed out of school. Initially, I used to give tuitions and save money from internship to meet my pocket expenses. This made me understand the importance of money and managing it.

My interests to be part of the financial markets inspired me to join a broking company as a finance manager. The timing was perfect as financial markets were seeing a big transformation towards screen-based and paperless trading, the introduction of derivatives both in equities and commodities. In the early stage of my career with a brokerage house, I got a chance to understand the investment behavior of investors of all asset classes and also experiment with my learning of finance and investment management, which I envisaged during my CA practice. My business acumen, which I got from my family and exposure to the markets helped me grow professionally at a very rapid pace. I was heading the entire business of a leading brokerage while I was just about 27 years.

Like many others, the best period of my professional life was from 2007 to 2012 from earnings and returns perspective. During this period we all witnessed extreme bull-run, global financial crisis, and a sharp bounce back. I also had my share of ups and downs but this was still the best time for me professionally and by far the most impactful period for me in terms of my financial goals and diversification in real terms.

When it comes to managing money, my investments are driven by my belief in asset classes. A balanced approach, with a combination of conservative traditional savings and aggressive investments, has been the mantra. Though we all know capital markets will always offer superior returns, I follow a mix of real estate, which can now also be REITS, quality stocks, and fixed income government securities. I keep asset classes like equity, mutual fund, real estate, gold, and govt. securities in my investment portfolio.

I have categorised my investments to achieve the goals of wealth creation and emergency expenditures. Equity investments are best when it comes to wealth creation for which I have enough experience and exposure in the domain of stock markets to take up risks. ■

Gurpreet Sidana

Chief Operating Officer, Religare Broking





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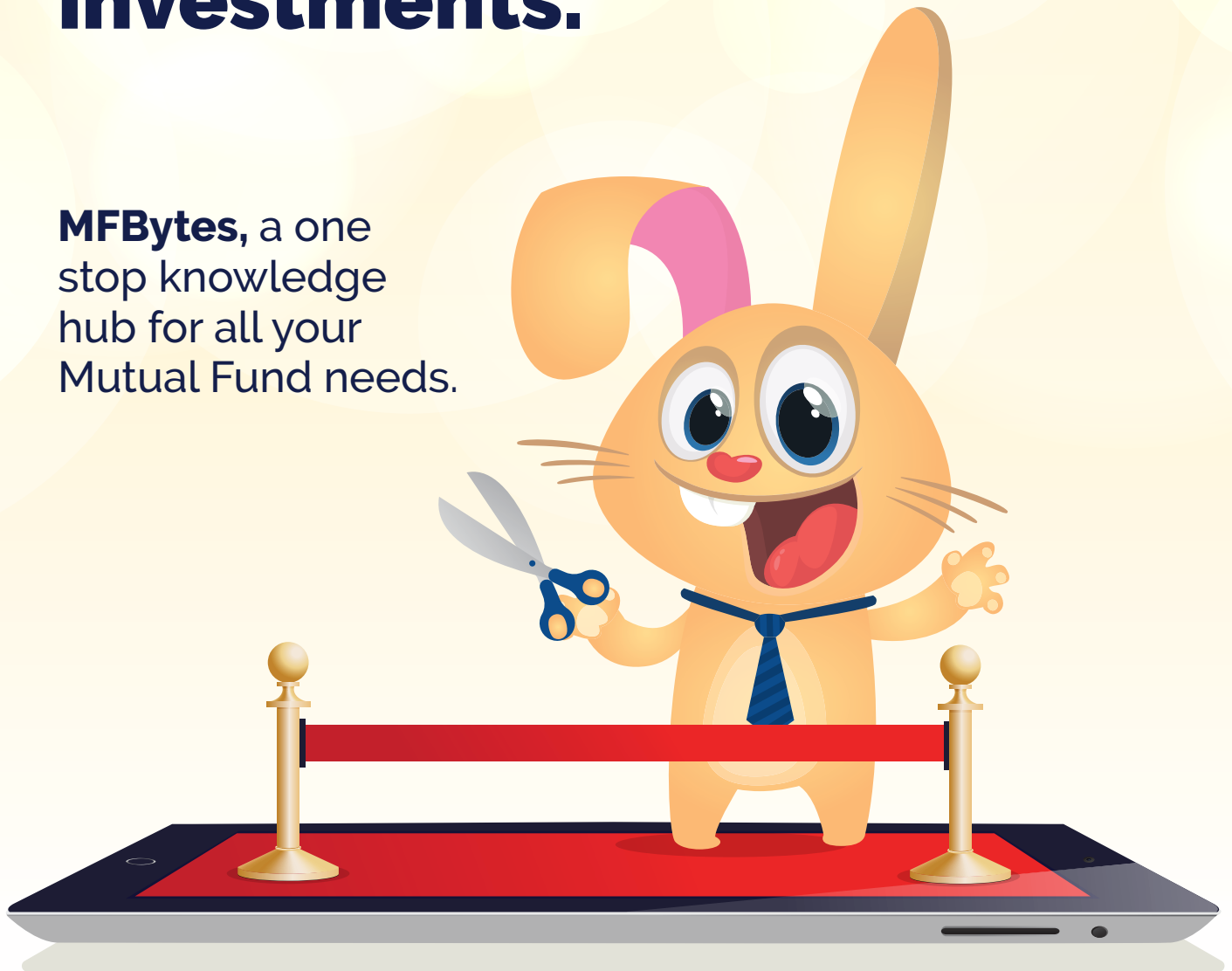


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