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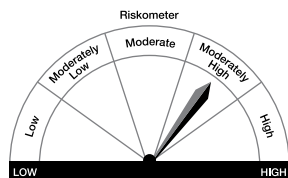
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The objective is to keep readers better informed and help them decide for themselves.

Stay Calm And Avoid Panic Selling



Systematic Investing Plans can keep you afloat during trying times

In the last few weeks, things have not really been favourable for Indian investors. The stock markets have tanked miserably and globally there are clear signs of recession. There is a crisis of confidence in the markets and there is uncertainty all over.

These are truly difficult and trying times. The entire world is in the throes of one of its most formidable challenges ever faced by mankind. The COVID-19 virus attack has taken the entire world unawares. The way out is still unknown. While hi-tech medical research is ongoing, it is still uncertain when we will be able to see the light at the other end of the tunnel.

We have seen unprecedented developments in the stock markets in the last few weeks. The Sensex has dropped by 2000 points plus in a day more than once. It stands at around 29,000 now as against 38,000 last month. The story with the Nifty is similar. Investors have taken a heavy hit and no one is bold enough to venture into the unknown at this point of time. Making matters worse are predictions by international bodies that India's GDP growth will plummet. Some, like Moody's has predicted that GDP growth will be just 2.5 per cent for calendar year 2020, down from 5.3 per cent forecast earlier. That is not helping investor confidence.

What is making things worse is the huge drop in crude prices which is affecting the global economy. With the US becoming one of the worst affected countries by the COVID-19 attack, the impact is being felt worldwide and India is not an exception.

The times are going to be tough for the months to come even after the virus massacre recedes in India. The markets, though gaining in pockets, will take time to come back to their earlier glory primarily because the Indian industry has been hit badly. Manufacturing and productivity has been severely affected. The state of company results in the next quarter is anybody's guess.

In such times it does not pay to do any panic selling and will make sense to stay invested for the long term because the markets may show some resilience after a

few months and bring in some cheer for the investors.

World over, the media is going through a tough time. Conditions are such that it is increasingly becoming difficult for us to continue with our normal schedules.

It is often said that desperate times require desperate measures and we are truly going through desperate times at present. Obviously, at our end too, it will call for drastic measures. We will do our best to ensure that our readers stay safe and ensure that we do not compromise your safety and security in such times.

The PM has put the entire nation in a three-week lockdown in which nothing but essential services will work. That puts us in a difficult position to carry on with normal working schedules as printing and distribution of the magazine will not be possible. Moreover, we would not want to send magazines to our readers at this point of time as the print copies go through many hands before reaching our readers and may inadvertently become carriers.

As such, we have decided to temporarily suspend the print edition of Outlook Money for the time being till things improve. I hope our readers and subscribers will understand our predicament. In many places across the country, newspapers and periodicals have stopped production exactly for the same reasons.

But we will not leave you news-dry even in such times. We will produce an e-magazine on schedule and we will ensure that e-magazine, with all its elements reaches you so that you get your regular fill of our stories, investment advice and insights into the financial world. Of course, our website www.outlookmoney.com will continue to update you on the latest in the financial world.

We hope to resume regular print production as soon as things improve and we are able to restart normal working schedules. Till such a time, we request you to bear with us.

Praying that all of you stay home and stay safe. ■



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Dreams Have No Expiry Date

Being someone of that ripe age, Latika's story about miseries and following the trail of opportunities to creating her own ferry of destiny, inspired me to a different height. In times when women are coming out of their shell and efficiently contributing to the economy, Latika did not step back thinking about her age, as dreams are to be lived without considering the age. She had her moments filled with obstacles, but her sheer desire to not overlook her talent and pick up the resources that she finds midway, only to give a shape to her dreams. I would like to thank Outlook Money for giving the deserving exposure to women like Latika Chakravorty.

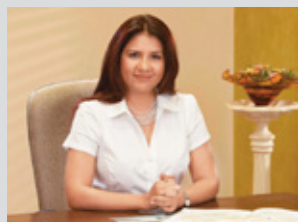
Shipra Sinha, Kolkata



Building Her Legacy

It was such a delight to read this particular article on how Manju Yagnik, with her passion and high skill, decided to excel in a male-dominated domain. Her achievements and her sustenance in the real estate sector should be highly appreciated. I would request Outlook Money to come up with such intriguing articles, which is absolutely important for this generation to witness.

Ishan Sharma, New Delhi



Shore Amid The Ocean Of Fetters

Life of an entrepreneur might seem all shiny and successful, but there goes a lot of blood and sweat to garnish such a lifestyle. This cover story on interviewing an entrepreneur from dawn to dinner was an excellent one. I loved how the entire article is weaved under a timeframe and how at the end when she sits for dinner, she looks at her workaholic life and smiles while raising a toast.

Tejas Malhotra, Mumbai



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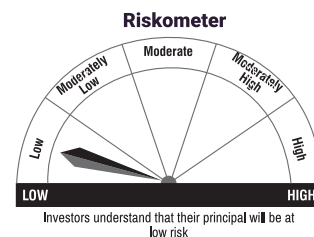
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Securing The Self Against Maladies

I loved the insurance article, which talks about the necessity to buy health policies so that they do not have to face any miseries when any sickness might arrive. It was very informative, especially the column that focuses on the varieties of the plan and alongside mentions the insurer, eligible age and what they cover.

Rohan Desai, Chennai



Young Fellas' Financial Affairs

I have always been curious about the concept of Gen Z being in a digitally advanced stage of this century, as compared to the millennial. Added to this concept, when Kalpana Pandey's article

focused on the credit score, it became all the more interesting. Gen Z's fantastic ability to use digital platforms to equip them on and around credit. I enjoyed reading this and got to learn a new concept.

Shruti Gupta, Mumbai

Regents' Share In Fintech Realm

Women leaders in the world of Fintech business is a story that needs to come to a surface level for the readers. Upasana Taku's journey is really inspiring for thousands out there, who are out there achieving milestones. I being someone from this industry can relate to it to a far extent. The questions like, whether a woman is traveling alone for a business meeting, still exist. However, I believe a strong vision and a belief in one's capability and talent is all that a woman requires.

Aratrika Majumdar, Bangalore

Freedom To Enlighten And Empower

I am purchasing outlook money magazine for a long time, but the March issue was profoundly beautiful. The personal finance section where it is mentioned that women are generally considered as the risk-averse, however, it does not mean that you have to shun the financial instruments, this statement is absolutely necessary. It is important for women to understand the need for the money to grow and not just keeping them in the savings bank account. The language was very lucid, and overall a great article.

Souvik Pandey, Bangalore

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CASH & COURAGE IN CRISIS IS PRICELESS

Long-term investors should buy into extreme bouts of volatility

By Yagnesh Kansara

The coronavirus outbreak is like a Lehman Brothers moment for the corporate world but in a much larger sense, particularly for the emerging and developing markets. The Lehman Brothers crisis was only limited to impacting the banking/ financial markets, associated with financial aspects of corporate with respect to raising capital and capex. The crisis did not have any impact on the general growth and consumption cycle of India, China, South Asia and West Asia. Furthermore, the crisis was limited only to the banking level and had not spread to the day-to-day functioning of most companies.

The stock markets, as measured by the benchmark indices, have fallen by around 25-30 per cent this year, and for once this has been in sync with global markets as a whole. This heightened volatility and the general risk-off attitude in the global markets is due to the uncertainty and fear created by COVID-19 and the unprecedented actions of the governments to contain it.

Coronavirus is a serious set-back to the economy in the short-run and a death knell to the financial sector in the long term if this menace does not stop. Mainland China and Hong Kong's experience is that corona can be thwarted and controlled. However, it is to be seen how this stops worldwide.

India is relatively insulated given the relatively weaker link to Asia's supply chain. Given that the incidence of coronavirus has been surprisingly low in India (probably aided by under-reporting but also helped by warm weather) and assuming that it does not increase in the coming weeks.

Rahul Singh, Chief Investment Officer (CIO) – Equities Tata MF, says, "We prefer to analyse the impact of a global slowdown and possible China linkages on the earnings of specific sectors instead of a broader impact on India's economy as of now. China is a large supplier of raw materials, components and intermediates for textiles, pharmaceuticals, chemicals and consumer durables/electronics. Decline in Chinese export capacity will impact





MAHESH SINGHI,
Founder & MD, Singhi Advisors

Many aggressive corporates will start bargain hunting in acquiring strategic assets

India's output and exports from these sectors."

On balance, n-CoV will prove to be a mixed bag across sectors in the fourth quarter of this fiscal. But if it persists, Indian industry is heading for serious disruptions. Sectors such as auto components, pharma bulk drugs, and agro chemicals can survive the n-CoV headwinds to some extent in the near term, given inventory stocks of two months. However, as inventories run down, industry will face significant pressure. Overall, that would eventually result in more sectors being negatively impacted, outweighing the positives, CRISIL says in its Impact Note.

Singh adds, "Our interaction with Indian corporates, however, indicates that the inventory levels are adequate and some of the Chinese capacities are coming back gradually and they don't expect the situation to get worse. Earnings of commodity driven companies, however, would be impacted as global slowdown has impacted commodity prices including crude oil."

Credit profiles of firms in select sectors could also get impacted if the supply disruption continues beyond March - for instance automotive components, renewable (solar) and diamonds. Both diamond and automotive component sectors are already witnessing

demand sluggishness for over a year; also the automotive sector is on the cusp of adopting BS VI regulations effective April 1, 2020, leading to higher cost of components and hence vehicles, CRISIL notes.

Also 3 Giga Watt (GW) of solar projects, worth Rs 16,000 crore, could be at risk of penalties for missing their project completion deadline if the coronavirus impact prolongs and delays supplies of solar panels, CRISIL note adds, saying credit profiles of some of the firms implementing these projects could therefore witness some strain.

In this period of time, people will start working more inwards, which will lead to being conservative followed by betterment of organisations and their cost structure, which will further shrink the economy. Over the next two to three months, China's supply-based companies (like API's, base chemicals, electronics) will be impacted and even Indian exporters in the minerals/ mining-based industry (like iron ore, industrial salts) will witness a volume drop and margin shrinkage. This will have a cascading impact on every single value chain.

The manufacturing sectors, including hospitality, airlines, entertainment, are all worried. All the chambers of commerce are busy issuing their advisories. The stock market is highly volatile and devastated. Banks and financial institutions are bleeding. There is bloodbath at the stock exchanges. Bigger worry is the performance of the banking industry which is already struggling with NPA issues. A large number of industries of all sizes and shapes are going to interpret corona as Vis Major - meaning - Act of God and would approach lenders to restructure the facilities and / or for reductions on interest and / or loan waivers. The large corporates, SME, SSME and micro industries all are likely to face actual challenges.

Unfortunately those who are not stressed may pretend to be stressed, which is going to add to the woes. There may be legal challenges to the contract on the doctrine of 'Act of God' and this may create unprecedented and unknown challenges.

Rajesh Narain Gupta, Managing Partner, SNG & Partners, says, "In these unfortunate times what we expect is that all should behave like statesman. Bankers should not act as fair

How Indian Markets Fared

	1 Week	1 Month	YTD
Nifty	-17.3%	-37.0%	-37.5%
Sensex	-17.2%	-36.9%	-37.0%
BSE Midcap	-18.3%	-38.1%	-35.1%
BSE Small Cap	-20.0%	-39.8%	-35.2%
BSE 500	-17.7%	-37.3%	-36.8%

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weather friends and should come forward to help all those borrowers who are in real stress owed to the corona-related problem and explore how best the adjustments can be made with the stressed account so that the economy revives.”

It is better to survive than to perish. Regulators and the government have come forward with pragmatic solutions as is expected in a welfare state. Most importantly, the borrowers have to exhibit their integrity and approach their friendly bankers with truth and true statements. It is not the time when they adopt unfair tactics or try to hoodwink their lenders, Gupta explains.

This time around India has already been grappling with problems in the financial markets with big players like IL&FS, Yes Bank and DHFL going down simultaneously. At such a time, any disruption in the consumption cycle and supply chain would exert a definite impact on the economy. We are already observing an overstocking of goods like foodstuff, sanitisers

and soaps with people stocking more than what they can consume. The resultant benefit of volume increase of stocking will be a temporary phase. However, it will be followed by delayed buying because consumers will have enough goods stored unless things are perishable. Every buying decision or discretionary spend like travelling, property purchase, marriage functions, entertainment or even buying of essentials is likely to be deferred. The far-reaching impact will be felt not only on consumption-led industries like garment, travel, restaurants and entertainment but also deferment of routine corporate expansion plans in an economic ecosystem where all sectors are inter-linked.

With financial markets going down and interest rates reduced, the ability and intention to borrow and take incremental risk will also be affected considerably. In a way, it denotes that the economy will shrink and prepare itself for structural changes, before it bounces

This Too Shall Pass

Bright days are ahead, probably markets have already bottomed out or is in the process of bottoming out in the midst of the maximum scare

Stock Market always look ahead and the long-term smart investors are the ones who will put money to work at this juncture. We want our investors to play smart by making lumpsum investments into equity funds with 3-5 years view and be part of the smart money movers.

The reasons for the fall have been three folds:

- Corona Virus Impact and the effect on the economies are uncertain
- Corona Virus medicine/vaccine is not known to anyone
- Economic slowdown around the world expected to reduce Crude Oil demand. Crude Oil, demand & supply issues are not known and the impact it has on various economies

"ITI Mutual Fund would like to convey this message to all of you.

With the headlines screaming in your face about the gravity of the current situation, we strongly believe that you need to look beyond the headlines.

Invest with discipline, keep in long term perspective, remember your investment horizon and remain calm in times of distress are the key to long-term investing success.

We are confident that all our funds are well poised to generate good risk adjusted returns in the long run.

ITI Mutual Fund view, in the next 3-5 years:

- Equities stack up as the best asset class to invest and generate long term returns.
- Small Cap segment will generate maximum returns followed by Mid-Caps and Large Caps.
- Small Cap segment returns will beat large cap returns by a wide margin on a 1 year, 3 year and 5-year basis.
- An outstanding opportunity of this decade: When fundamentals are strong and the market valuations are at lowest point in two decades this becomes a very good investment opportunity.
- We can prepare ourselves in this situation for a better tomorrow. Nobody knows the bottom of the corona virus impact or bottom of the markets.



George Heber Joseph

Last 3 decades of investing has taught me four important things which has been proven right time and again:

- Respect Valuation: When market valuation is very attractive, you have to bet saying that the current economic/ market situation will normalise. All equity market indices are trading at rock bottom valuations even when compared to global financial crisis periods.
- Believe Market Fundamentals: India has the best demography and is the fastest growing economy in the world. Fundamentals don't change overnight.
- Watch Market Sentiments: You need to bet against the market sentiments.
- Look for Triggers: Look for upside/ downside triggers depending on the market valuations.
- Markets bottom out in midst of the scare and market peaks in midst of optimism. At the thick of the problems generally markets bottom out. So, cutting all noise and focusing on long term investing makes a lot of sense.
- Investing into bust and selling into booms is very important to make big returns. This is the learning from all great investors like Warren Buffett, Seth Klarman, Charlie Munger, Benjamin Graham etc.

HAPPY INVESTING AND BE SAFE."

Few mistakes that investors should avoid: -

- Don't panic at the wrong time and redeem your investments.
- Don't mix Risk and Volatility
- Don't bet on the same sectors which have done very well for a long period pre-crisis.
- Don't make decisions based on hearsay, rumours and baseless assumptions.

This is the time to be rational, invest maximum you can according to your risk appetite, ride through the volatile period and make money, so we all can together laugh at volatility next time when it comes. In few years you would be very happy with your decisions.

The author is the CEO and CIO of ITI Mutual Fund

back again after a couple of quarters. In such a situation, M&A activities will certainly take a hit, even though you may witness many assets being available for a grab. When the chips are down and the atmosphere remains uncertain, corporate world will have big resistance to take risk, even though the market may remain liquid.

Mahesh Singhi, Founder & MD, Singhi Advisors feels, "Many aggressive corporates with strong balance sheets and well-oiled management team will use such times for bargain hunting in acquiring strategic assets. So the deal street will largely be restricted to value buying and bargain hunting for cheap assets for next few quarters. New class of acquirers such as buyout funds, family offices or special situations funds with patient capital will leverage these markets to consolidate certain assets and build alternative platforms over the next 12-24 months."

Certain sectors like chemicals, building materials, business services, food processing, which have a large number of sub scale players, will witness consolidation with emergence of new entrants, similar to what happened during the early 2000 since many non-sellers will turn sellers while natural buyers will remain on the edge, opening doors for new hawks on the streets, says Singh.

"Private equity funds may explore and exploit by investing into listed and unlisted stocks as valuations will be low till full recovery happens and stressed industries will look for capital," says Gupta.

"The task is not easy. We have an option to sink together or sail together. Coronavirus shall reset the world economic and manufacturing order. Countries will wonder whether to have their own manufacturing base or rely on foreign imports. Countries may also consider whether the foreign investments made in any form or consolidation should happen at home country.



RAJESH NARAIN GUPTA,
Managing Partner, SNG & Partners

Bankers should not act as fair weather friends but help those in real stress



Corporate world will evaluate whether to save their own units and core work or invest in any acquisition," says Gupta.

Coronavirus and its impact on global GDP will keep crude and commodity prices down, which can keep the non-food inflation and current account deficit in check. The GDP impact at the global level would be mainly on the account of a drop in Chinese demand; decline in Chinese exports due to supply chain disruptions and decline in international travel and tourism.

This macro stability on the external front is critical, especially when government has been forced to adopt a mild fiscal boost through relaxation in the fiscal targets for FY21. In the medium term, the weak outlook on crude prices and potential for improvement in Indian exports due to shift in supply chain logistics away from China can provide an



useful counter balance. On the domestic front, the GDP growth slowed down further in the December quarter as consumption slowed down even as investment slump continued. Government expenditure and relaxation in fiscal targets continues to provide support to GDP growth. Meanwhile, there have been green shoots visible in terms of power demand in February and low inventory levels like autos provide scope for support to IIP and GDP growth numbers. However, the biggest driver in the short term is likely to come from the good rabi crop and higher agricultural income (aided by higher food inflation).

“In this context of expected gradual economic recovery and assuming no major outbreak of the virus in India, we continue to build our portfolios around earnings stability and identifying stocks with potential to beat earnings expectations thus providing the alpha.

How Global Markets Fared

	1 Week	1 Month	YTD
Dow Jones*	-17.30%	-34.40%	-32.80%
FTSE100*	-3.30%	-30.20%	-31.20%
Nikkei 225^	-0.7%	-28.1%	-28.6%
Hang seng^	-5.9%	-21.4%	-23.0%

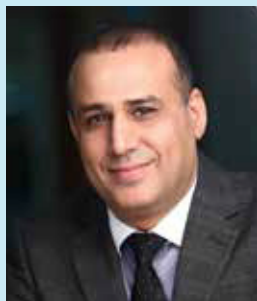
Selective bottom-up midcap stocks and rural recovery plays remain in focus,”Singh explains.

Since the outbreak of COVID-19 contagion assumed dangerous proportions, stock markets across the globe have been bleeding post Valentine’s day (February 14) and everyone associated with it have been forced to undergo quarantine in terms of their investment. With the COVID-19 outbreak declared as a pandemic by the World Health Organisation (WHO), panic gripped the financial markets across the globe including Indian markets, where the benchmarks have shed in excess of 37 per cent in only 25 trading sessions. This works out to be fall of 1.48 per cent on an average a day in last five weeks.

All the leading Global benchmark indices of from Nikkei, Hangsang, Dax, CAC, FTSE, DJIA have been bleeding profusely. Back home, Indian benchmarks, Nifty and S&P Sensex, have also lost 37.15 per cent and 37.02 per cent respectively as on March 23, 2020 in 25 sessions beginning February 13, 2020.

The severity of the panic is witnessed that in less than a week’s time benchmark indices in India have hit circuit breakers. The bourses have clocked alarming level of trading volume and dramatic rise in the turnover. The trading volume (number of shares traded) of Nifty during the period has risen from 62.35 crore shares to 107.23 crore shares. This indicates a rise of 72 per cent. During the same period, the average daily Nifty turnover has risen 44.38 per cent, from Rs 20,760 crore to Rs 37,321 crore. What is more worrying fact is that the broader index Nifty-500 and BSE-500 have lost more value than benchmark indices. Both these measures have lost 37.33 per cent and 37.72 per cent respectively during the period.

Ankur Maheshwari, CEO, Equirus Wealth says, “COVID-19 has disrupted economic activity in multiple ways. With what started



Rebalance Your Portfolio

The economic impact of coronavirus has disrupted the financial markets world over. We have seen stock markets across the globe bleeding profusely in some of the previous sessions. To, understand what impact it will have on various sectors in the Indian economy, Yagnesh Kansara caught up with Dhiraj Relli, MD & CEO, HDFC Securities. Edited excerpts:

➤ What is the impact of coronavirus on markets and how is it different from previous attacks of other viruses?

Coronavirus contagion is such an event where you don't even know the magnitude of the problem and it is difficult to quantify. Compared to earlier cases of different virus epidemics like Ebola, H1N1, Swine Flu and others, in this case it has spread in the second largest economy of the world. China, which has linkages, is contributing 20 per cent of the global GDP. Its contribution to the incremental world GDP is also significant. So, if the world GDP is growing at 3.2 per cent, attribution to China growth is higher. Even if China grows at the rate of 5 per cent, with \$13 trillion economy, their absolute growth is much higher than the growth of many other nations, because their base is very large. Another important point is that, China is an export-oriented economy, unlike India. China has supplies all over the world and that is where the magnitude of the problem is more.

➤ Has the worldwide spread of coronavirus worldwide affected global markets?

Since China has locked down many of its provinces and the entire nation is under quarantine, the markets have reacted very sharply in last few sessions. Earlier, people could not understand magnitude of the problem. Till mid-February, people never anticipated, it would become such a big problem and that is why in last 19-20 sessions markets globally have corrected in the excess of 20 per cent. When markets correct 20 per cent or more then the question that arises is - is it a bull market correction or is it the beginning of the bear market? That is something no one knows at this stage. But it is one of the triggers that could lead to recession at global level. It could lead to a significant slowdown in growth. But at this juncture, we don't have data points that could tell us that. We are in dangerous zone, but at the same time, I would not raise red flags at this point of time.

If the spread of the Virus gets prolonged to another two to three months and if we get another 10 odd per

cent correction, then it can have a deeper impact. If the prolonged spread of virus continues and supply chain continues to get affected for many more quarters, then it would lead to recession. It would lead to a slowdown in the global economy and that could last for 8-12 quarters (two to three years). If we are able to control it in next two quarters, then in next (subsequent) two quarters, things will settle down and the world will move on.

➤ Which are the sectors that will get impacted?

Impact of coronavirus on certain sectors will be long lasting. For example, hospitality (includes airlines, hotels, tour operators, taxi companies, cruiseliner, casinos and others) and others will take their own sweet time to recover. The impact will lead to restriction on travel; be it by road or by air. This will lead to drastic fall in demand for crude oil. Coronavirus is at the centre-stage of recent fall in crude prices.

➤ How will automobile sector get affected?

We have seen changes in the human behaviour, change in preferences and that has its impact on certain sectors like automobile. We have moved from a possessive to share economy. People who use to buy second or third car are not doing so. So, even in High Networth Individual (HNI) segment, Mass-affluent segment or if the husband-wife have one car, they will not buy the second car. What I am saying is that passenger cars will continue to attract demand but the number will come down. The demand for second car has got impacted. If your second car is driven only 20-30 days in a year, then in that scenario, it is prudent to go for a rented car option, which is freely available and an easy option.

➤ Were Indian markets due for correction and they found opportunity in the name of coronavirus?

I have a disagreement that Indian markets were due for correction. It would be fair to say, markets were ahead of valuations. It is not true that markets were

looking for a reason to correct. I think the selling that we are witnessing is part of global strategy of foreign players. Most of their selling is in the form of index selling. So, if Exchange Traded Funds (ETFs) come to market to sell their index and they have to align with their position and weights, then selling will always happen in this kind of event. Whether the PE is @ 18 or even at the multiple of 14, their strategy/ response would remain the same. The higher valuations did not trigger selling, the cause (Coronavirus) was severe.

Do you know how do global players invest? They have their own assigned weights to all jurisdiction including emerging markets. They have to maintain balance as per their weights. And they will act ruthlessly and in regimented manner to maintain this balance. They sold equity following the outbreak and moved all their money to US dollar-denominated assets like US treasuries and gold. That's why gold price shot up following equity meltdown.

➡ **What has been holding back Indian markets?**

It is the patience of Indian retail and HNI investor that is holding back Indian market. It is the Systematic Investment Plan (SIP) in the domestic market that is standing tall against FPI exit. Though FPIs are exiting, there is no panic seen in Indian retail and HNI segment as far as SIP inflows are concerned. Even Domestic Institutional Investors (DIIs) are buying at every dip. There is no intervention by DIIs unlike in past, to give support or any attempts to stabilise the market. Neither they are selling in panic. These are good signs for the Indian market. The annual SIP book has grown to the size of net FII buying in the Indian market, which is a good sign.

➡ **What is the right time for retail investors to take a dip, who had earlier missed the bus in September 2019, following announcement of cut in corporate tax rates?**

This is the right opportunity for the investors to reconstruct-rebalance their portfolio. For, those who missed bus earlier, time has come to start building portfolio in a staggered manner. The current market levels are giving opportunity following the cut in corporate tax rates in September, 2019 the markets moved up swiftly, as re-rating of certain sectors took place. This sudden market spurt deprived many of the investors to participate and they felt they missed the bus. However, those who couldn't participate last time, the time has now come. ■

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A slowdown in new infections could trigger market recovery

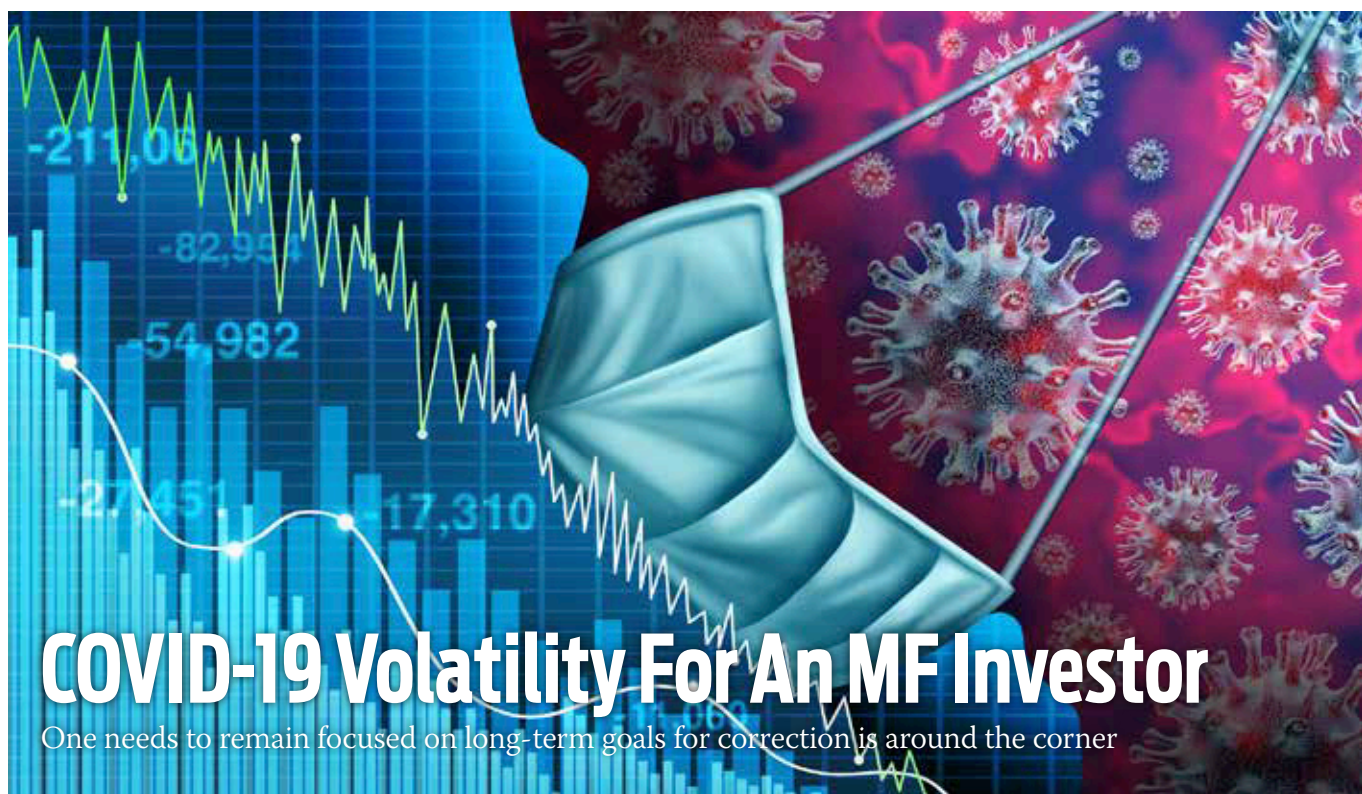
in China largely as supply chain disruption, given that it is a manufacturing hub for many firms across the globe, the economic impact has now spread to more than 100+ countries. Domestically too, almost all sectors have got impaired in varying degrees owing to disruption in economic activity and Q4FY20 earnings will be severely impacted. Given that we are still in the midst of COVID-19 outbreak, it is difficult to assess the extent of impact completely. That said, FY21 earnings estimates are expected to be downgraded anywhere between 10-20 per cent vis-à-vis estimates at the end of December quarter."

Investors would do well to note that the markets have historically faced such situations and more importantly recovered from it, albeit over varying time periods. If it was a banking crisis in 2008, now it is due to the coronavirus spread and there is no ascertain damage to the global economy and also to India, especially, coming on the back of an already slow economic growth of 4.7 per cent in Q3FY20. The difference in this market scenario is that there is a definite recovery point for which investors can look out for. A slowing growth rate in new infections around the world or in the developed nations could be a trigger for the market recovery.

Chinese infections have dropped off while the infection rate in other countries seems to follow the same trajectory. We will reach a point when that rate starts tapering off and that would be a good indication that the virus threat is being controlled. The sharpness of the recovery would depend on how fast the threat recedes and how fast the global economy gets back on track. Long-term investors would do well to buy into the extreme bouts of volatility that we may witness and ensure to accumulate quality stocks during this period.

In this kind of situation, investors should keep in mind advice of Investment Guru Warren Buffet who says, "Cash combined with courage in a time of crisis is priceless." ■

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By **Himali Patel**

On March 13, NSE Nifty saw a massive plunge hitting the 10 per cent lower circuit towards 85000 zones and marking a history for Indian bourses in twelve years. Market participants are concerned over the kind of economic damage the pandemic would lead to and would most likely weigh on the market for a while. Given the suddenness of plunge, it is difficult to predict the impact of COVID-19 or how soon normalcy would return. In the past with virus spreads like SARS, MERS, the economy and markets had returned to normal within months. However, COVID-19's global spread suggests the effect may take a while.

"It is futile to predict market movements, but in the near-term the global economic impact will be really bad for various industries/ sectors. Hospitality, travel, airlines, discretionary goods, auto industry, you name it, will see a slowdown. As long as the fear is prevalent, markets will be volatile," says Neil Parikh, CEO, PPFAS Mutual Fund. Although markets might take a while to recover from this significant price damage,

the tailspin has spooked investors, who have started questioning their investment strategies. It is important to have a plan in place in case of a downturn. Further, investors should not let short-term market movements impact their long-term investments especially in mutual funds.

As an investor, one should not stop the ongoing Systematic Investment Plans (SIPs) or Systematic Transfer Plan (STP) strategies as volatility is the best friend of such investment strategies in the long term. Discontinuing or redeeming SIPs in a downturn is perhaps the biggest mistake an equity investor can make. It defeats the very purpose of the SIP by denying the investor an opportunity to accumulate more when prices are low. "Volatility in markets is an ideal way to optimally use tools such as Systematic Investment Plans. SIPs are designed to increase unit purchase during weak market conditions and reduce unit purchase at elevated levels. This reduces the cost of purchase (known as rupee cost averaging). Long term investors must welcome such an opportunity to reduce the cost of acquisition of investments," R. Sivakumar, Head- Fixed Income, Axis AMC.

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shield mutual funds from the downturn of the current market, is to stick to the plan. As per the experts, the current market has only made investments more attractive, as the corrections would provide great entry opportunities'. "Investors should consider staggering investments and continue to do systematic investment plans (SIPs) and systematic transfer plans (STPs). SIP is a great way to commit future cash-flows into the market while STP is the most dispassionate way to stagger an otherwise lump sum investment amount. I think these two tools should be used effectively to ride the volatility and invest in the market," explains Sandipan Roy, Head of Products for India, Credit Suisse Wealth Management.

To start with the first step to successful investing is to outline the investment objective. This helps investors shortlist the investment instruments best suited for achieving their financial goal. Experts believe Investors should take advantage of volatility in markets. "Investors must realise that in a goal-based investment with a multi-year time horizon, market volatility is a friend. When investors make decisions based on market sentiments, then they are prone to higher amounts of losses. Hence a prudent approach during such volatile times would be to stick to the overall asset allocation plan and avoid investing in funds, which may not help investors reach their financial goals," says Nimesh Chandan – Head Investment Equities Canara Robeco Mutual Fund.

An investor should note that capital markets, particularly equity, that are prone to gyrations. It is due to the nature of the product the equity holders have access to the last stream of cashflows in any corporate. So, during the downturn or upturn the market impacts the cashflows of any of the other stakeholders in the corporate value chain, the highest volatility is to the cashflows of equity holders. However,

one cannot escape this inherent volatility. "One of the reasons why the asset class has the higher volatility but also delivers the higher return – for instance, if one looks at a 5 to 10 year empirical data in the Indian markets, equity as an asset class delivers around 220-270 basis points (bps) Compounded Annual Growth Rate (CAGR) better returns than the next closest asset class (among the five most used asset classes in the country like gold, property, fixed deposit and 10 Year T-Bill proxy for fixed income, data as of December 2019)," points out Chockalingam Narayanan, Head – Equities, BNP Paribas Asset Management.

To ride this volatility, experts believe that investing in funds that give diversification, especially a geographical diversification can add a cushion of safety in volatile times. "As you diversify across countries, you avoid taking country-specific risk, which helps you reduce the overall risk of the portfolio. It is hard to predict which markets will perform/ underperform (or which country will be the most affected by the virus). So having global diversification will help ride through the uncertainty. Someone who is extremely risk averse can park some funds in safe havens like gold or FD's," says Parikh.

Further asset allocation is also crucial. Many experts believe that investing in gold can mitigate the risk against the uncertainty. "One should look at some allocation to gold as this works best as a hedge against downside on the long equity portfolio. Moreover, apart from being a safe haven asset in times of uncertainty, gold also has a historically strong correlation to the US Fed rate cuts and can work to an investor's advantage in case the rupee continues on a depreciation bias," says Roy. In uncertain times like these it is good to build in some kind of protection against further market downturn. Says Roopali Prabhu, Director-Head of investment products, Sanctum Wealth Management, "Gold historically has acted as a hedge against increased market volatility. Thus, it makes sense to have a bit of investment in gold. Recently, we further added to our gold overweight position. Buying a protection like a put can also be a good strategy but with rise in volatility the cost of puts has become very expensive now."

In times of economic uncertainty and heightened volatility, an investor should avoid leveraged and poor-quality speculative bets.



NEIL PARIKH,
CEO, PPFAS Mutual Fund

In the near-term the global economic impact will be bad for various industries/ sectors

Importance of Asset Allocation in Turbulent Times



Kshitija

Director, Gaining Ground
Investment Services Pvt. Ltd

Have you been stressed over the past few days over the money you have invested in equity markets? Or have you been stuck in contemplation mode when market was rallying and now correcting? If yes, then its time to remind yourself of two words that financial advisors often discuss — Asset Allocation. Does it ring a bell? After all why do financial advisors and other experts keep reminding us about asset allocation all the time? Let us try to decode this.

What is asset allocation?

In simple terms, it is the age-old wisdom of not putting all the eggs in the same basket. The idea being, if something goes wrong with that one basket, then one may end up losing all the eggs or atleast most of it. When the same idea is applied to financial planning and investments, this translates to not investing your entire investable amount in a single asset class. This could be applicable to any asset class - debt, equity, gold

or real estate.

The idea behind asset allocation is that it helps you minimise your risks, thereby trying to maximise returns. How is this achieved? The simple answer is that different assets react to different events in different ways. For instance, a major global geo-political event has the potential to impact economic growth. Such a development usually results in fall of equity prices. However, the same event could lead to strengthening of bond prices or even gold prices, as large number of investors shift their capital to safer asset classes.

This means if a person's investment is spread across asset classes, even if one part of your investments is hit by volatility or even loss of value in extreme case; the other parts of your investment may gain thereby balancing off the net impact on one's portfolio. This leads us to the next question....

How to determine one's asset allocation?

Asset allocation as a concept is simple but when it comes to implementation it turns out to be a not-so-simple process because the implementation has to be nuanced. A variety of factors (one's risk tolerance, investment vehicles, rebalancing), all comes into consideration when deciding on asset allocation. Which asset class to choose, when to invest in them, what should be the proportion of exposure, etc... are all very personal decisions to be taken when deciding on one's asset allocation.

One of the major determinants in asset allocation is being aware of one's risk profile. A risk profile is an indicator of how much risk one can bear with respect to one's

age, income, expenses and financial goals. For instance, if financial goals are long term in nature, one can afford to take some risks in terms of their investment vehicles (equity) chosen to achieve these goals. The underlying principle is that over the long term, equity has the potential to perform well, even if the asset class tends to be volatile in the near term. However, if one's risk profile is very conservative, then the choices will be taken accordingly.

On the other hand, if financial goals are of short-term in nature, then one can choose fixed income options to achieve these set of goals. Given the nuanced approach required it is best to seek the expertise of a financial advisor when it comes to charting one's asset allocation.

Asset Allocation helps withstand turbulent markets

When the equity market is in a tailspin, and if most of one's investment is in equity, then one would tend to get worried by the fall in portfolio value. But, if the same investment was a healthy mix of equity, debt, gold and cash, then only one portion of the investment would have been affected. On the other hand, the gains in other asset classes would most likely provide the much needed cushion to the overall erosion in portfolio value. This was in case of a market correction.

On the other hand if the market rallies, by adhering to asset allocation one will not be tempted to invest beyond the designated equity level planned for the portfolio. After all, no one knows if the same market will move in the opposite direction the very next day! So, as investors what one should be most conscious about when investing is the asset allocation one follows. ■

Top 5 mutual funds returns (AUM-wise)

Mutual Funds Post Double Digit Losses In Last One Month

	Scheme Name	Category	AUM (₹ Cr)	Return (%)		
				1 Month	1 Year	3 Year
Debt	HDFC Liquid Fund	Liquid	71025.75	0.42	6.14	6.66
	SBI Liquid Fund	Liquid	49896.90	0.43	6.15	6.70
	ICICI Prudential Liquid Fund	Liquid	45078.59	0.42	6.22	6.77
	Aditya Birla Sun Life Liquid Fund	Liquid	41465.99	0.41	6.31	6.83
	UTI Liquid Cash Fund - Regular Plan	Liquid	31148.23	0.41	6.23	6.81
Equity	SBI ETF Nifty 50	Large Cap	64463.65	-18.14	-11.16	4.99
	Kotak Standard Multicap Fund Regular Plan	Multi Cap	29459.53	-17.41	-8.33	4.51
	ICICI Prudential Bluechip Fund	Large Cap	23608.74	-18.06	-11.87	2.97
	SBI ETF Sensex	Large Cap	23234.83	-17.66	-8.71	6.81
	HDFC Mid-Cap Opportunities Fund	Mid Cap	22754.65	-15.26	-11.82	0.56

Source: Value Research, Return as on 13th March 2020, AUM as on 29th Feb 2020

Also, generally in sharp corrections, mid and small caps bear the maximum brunt. So far, the sell-off has been indiscriminate, but as economic and Earnings Per Share (EPS) impacts get analysed better, divergences are bound to occur. Experts believe it is better to be in quality across caps. Also concentrated thematic bets in cyclical sectors can be avoided for the time being.

“We are aware that this sell-off so far has largely been driven by foreign institutional investor sell-offs, but with infection spreading in India now as well, economic impact needs to be carefully monitored and hence it is best to avoid excessive risks now. On the fixed income side, we would advise to steer clear of aggressive credit funds,” says Roy, adding, “long duration funds after initial rally may see some turbulence if fiscal stimulus measures kick in

and hence one cannot go overboard with long duration allocation now.” The current meltdown is more broad-based and hence impacts most stocks. Pharma companies that are not vertically and backwardly integrated and do not have their own captive Active Pharma Ingredient (API) unit could be at risk, claim experts. “Companies with significant exposure to China like certain Indian auto companies, and commodity/ metal players could see some dent. Consumer electronics manufacturers that rely on China for basic components are at risk. Any funds, which have large allocations to these sectors can be avoided for the time being,” explains Rajesh Cheruvu, CIO, Validus Wealth.

Investors should reassess their portfolios and ensure allocations are in line with their target and stay the course. It is important to keep in mind not to panic in such times to avoid any rash decisions. Investors should stick to their asset allocation and tactically rebalance from time to time. Further, investors should instill a certain discipline to save face by multiple volatilities on income levels and job certainty. Having said that, the outbreak of COVID-19 is an unprecedented event. Till there is a decline in the number of cases or some progress in finding a cure, the market could remain volatile. ■



R SIVAKUMAR,

Head-Fixed Income, Axis AMC

Volatility is ideal to optimally use tools like Systematic Investment Plans

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Invest With A Clear Strategy

*Amid the global pandemic, predicting the future of markets continues to remain dicey. In the light of the present situation, **Radhika Gupta**, CEO of Edelweiss AMC suggests what mutual fund investors should do to stay afloat in muddy waters, in conversation with **Himali Patel**. Edited excerpts from an interview.*

➡ With COVID-19 leading to a gradual economic slowdown, how should investors safeguard their mutual fund investments?

Coronavirus has been declared pandemic resulting in worldwide fear and global markets crashing. Black Swan events are also becoming more frequent lately. Therefore, the best thing we can do is prepare our portfolios accordingly. By using common sense and good investment principles, one can safeguard portfolios from market volatility as much as possible.

Here are five tips that I learnt, during my first Black Swan event in 2008.

Cash is your friend. Keep some cash in your portfolio that can be used, or invested to take advantage of a crisis. Low risk equities like Balanced Advantage Funds (BAF) are also good. Diversify currency risk. The Indian rupee and emerging market currencies are vulnerable in Black Swan events.

Illiquidity is costly! This implies liquid assets become less liquid, and illiquid assets become extremely illiquid in a crisis. Always keep a watch on your liquid assets and the liquidity of the underlying funds. Leverage should be limited; especially where the underlying is risky. Appropriate advice is the most important thing, which can help you during such times. It is often said that dealing with one's own emotions is difficult, but with someone's help, investors can make wise decisions, especially during Black Swan events.

➡ How long do you think it will take for global markets to bounce back?

The pandemic has brought instability to the global markets including the Indian stock markets, which is hitting new lows, not witnessed since the 2008 financial crisis. Though it is extremely difficult to predict when the markets will attain normalcy, however, as far as India is concerned, I believe some of this panic is already priced in the market today.

➡ Can you list different types of mutual funds that can add a cushion of safety right now?

Among all the myriad mutual funds available, asset allocation funds popularly known as BAF, that follow asset allocation based on a particular model, help in keeping emotions away in the investment process. These funds are more suitable for those who want to invest in equities, with caution. These funds manage equity levels between 30 per cent to 80 per cent that helps to handle the downside better. For the more conservative ones, Equity Savings Fund is a good choice. These funds manage equity levels between 20 per cent to 40 per cent and provide equity participation with very low downside risk. Having such funds in your portfolio helps in containing downside risks amid such volatile market phases.

➡ What are the funds investors should avoid capitalising right now?

One should always invest in funds that suit one's risk profile and avoid investing lump sum amounts and try timing the bottom. It is advisable to take the systematic to invest in pure equity funds. Funds one should avoid are the ones, which do not suit your risk profile. For instance, if you are risk averse by nature or heading towards retirement, where an equity exposure, let us say, high-risk strategies like small-caps, can prove costly. Hence, for such investors small funds can be avoided and a balanced approach like investing in a BAF is efficient.

➡ An investor's course of action in times of COVID-19. Your advice.

Well, the worst action you can take is to redeem and leave the markets; the best thing you can do is to have the courage to invest strategically. It helps to ride the storm, not react. ■

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Coronavirus Wreaks Havoc In Global Markets

Experts fear there may be one more leg of fall if the virus becomes an epidemic in the US

By Vishav

It all started in China at the rise of the year 2020. A virus brought a whole nation to standstill, and then began its spread towards the rest of the world. Stock markets crashed. Fake news and rumours spread. People panicked and started hoarding essential goods, and then locking themselves in their homes. It may all sound like the plot of a blockbuster science-fiction Hollywood film, but this is what the world has been going through with the outbreak of the COVID-19 coronavirus - a new virus whose cure and antidote are not known.

Towards the later half of March, the virus had infected close to 2,50,000 people across the world killing around 10,000. The second-biggest casualty, after human life, in this epidemic is perhaps people's wealth, irrespective of which country they belong to as stock markets crashed dropping as much as 30 per cent by the third week of March, erasing one third of people's wealth in the equity markets.

According to S&P Global, the total return in euros from the S&P Europe Broad Market Index, which tracks the share prices of more than 1,500 listed European companies, has fallen 33.3 per cent since Jan. 1. The S&P BMI for the real estate sector has fallen 38.4 per cent.

From the levels of close to 30,000, Dow Jones, a stock market index that measures the stock performance of 30 large companies listed on stock exchanges in the United States, dropped to the levels of 19,000. Japan's Nikkei 225 index nosedived to levels of 16,000 from the highs of 24,000. UK's FTSE 100 dropped 30 per cent while Italy's and France's benchmark indices fell even sharply by almost 40 per cent. In India, both NIFTY and Sensex fell over 30 per cent.

According to former Finance Secretary Subhash Chandra Garg, the largest turmoil post spread of COVID-19 in Europe and North America is in the stock markets.

"Most of these stock markets were at their life-time peaks in January and February - even when the virus was spreading its tentacles in China. For last few days, the stock markets all over the World (except in China) are in real mess and free fall. At



some places, the stock markets have fallen over 30 per cent. The uncertainty about how it would play out and whether the Western World would be able to manage it well is at the root of this massive sell-off," he says.

According to market experts, we may not have yet seen the end of it as there may be one more leg of fall left there in the global markets if coronavirus becomes an epidemic in the US. They feel that once we see the peak of the outbreak in the US is when we would probably start seeing some sort of stability happening in the global market.

The impact of the virus on the markets is in anticipation of how the economies would be affected by prolonged city- and countrywide lockdowns and quarantines, which are affecting daily lives as well as businesses. After China, much of Europe – now the epicenter of the outbreak – is locked down. Self-imposed lockdowns are now happening in other countries as well which are seeing a rise in the number of detected coronavirus cases. This would have a detrimental effect on the economy which markets are anticipating.

According to Jyoti Roy, DVP Equity Strategist, Angel Broking, the impact of the virus on China could be gauged from the numbers which we did not see even during the global financial crisis of 2008-2009.

"If you look at the retail sales data, they went down by 20.5 per cent for the month of January and February. And industrial output was down by 13.5 per cent. That's huge. While March numbers are going to be better sequentially month-on-month, but year-on-year, that's again going to be a big negative trend. There's a significant amount of lockdown which is still in effect in China and there's still some amount of social distancing being maintained. And we don't know whether there could be further outbreaks over there. So that is one thing for which markets are keeping a lookout for," he explains.

With many European countries already in stage three of COVID-19 spread where there is community transmission, and the US fighting to remain in stage two, the world may be looking at fears of recession. S&P Global, in mid-March, forecast a global recession this year, with annual GDP rising 1-1.5 per cent. It cut China's growth forecast to 2.9 per cent from 4.8 per cent.

Roy added that now the big worry factor which was playing out and dragging the markets

Revised 2020 GDP Growth Forecasts (%)

	High base	Low base
U.S.	0.0	(0.5)
Eurozone	(0.5)	(1.0)
China	3.2	2.7
Rest of the world	1.9	1.4
Global (PPP weights)	1.5	1.0

Source: S&P Global Economics.

down had been Europe with Italy now the big hot spot outside of China, and with the virus now spreading like wildfire to the rest of Europe.

S&P Global said that tourism and investment had been the hardest-hit areas so far due to which the eurozone economy was to contract 0.5-1 per cent this year. For the US, it said, the impact of COVID-19 had escalated rapidly.

"The sectoral hits should be similar, with the key addition of the oil and gas sector, given the plunge in global prices. Owing to the strong start to the year and the lag in many key metrics, it looks like the U.S. will post marginally negative growth in the first quarter, with the big hit coming in the second quarter before recovery begins in the second half of the year," according to a report by S&P Global.

Roy says that the spread of the epidemic to Europe was something the markets had already factored in and now further movement in the global markets will predominantly depend on how it spreads in the US.

"That will now drive market movements from here on to the next two weeks. If we see a massive outbreak in the US like we saw in Europe, then global markets can head down further from current levels. Once we see the peak of the outbreak in the US, that is when probably we are going to start seeing some sort of stability happening in the global markets. This can happen maybe if the US learns from what Europe did wrong over the next 10 to 15 days. But if they don't learn the lesson from what Korea did right and what Italy and Spain did not do right, then it may drag on for another month. But definitely the peak of the spread in the US may probably mark some sort of intermediate bottom in the global markets, if not the major bottom," he says. ■

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Time To Turn Wounds Into Wisdom

Ensuring long-term goals can help you remain unaffected during pandemic coronavirus

By **Anagh Pal**

We are well aware of the idiom, what happens in Vegas, stays in Vegas. However, analysing the situation we are in present times, this phrase has been completely subverted. What started off as an infection in the city of Wuhan, China has now spread its tentacles all over the world. By last week of March, more than 6.25 lakh individuals were affected and over 29,000 had succumbed to the deadly coronavirus.

Needless to say, global economy has been badly affected and India is no exception.

Markets have remained volatile and with BSE Sensex witnessing some of the biggest falls in recent times. "With several countries (including India) suspending human and economic activities and ordering lockdowns,

the coronavirus is all set to impact the real economies negatively in terms of reduced demand and growth, translate into lower expected earnings growth for companies and therefore lower expected returns from equities in the near-to-medium term," says Unmesh Kulkarni, MD, Julius Baer India, a wealth advisory firm.

This implies that your long-term financial planning – be it securing a retired life or financing your child's higher education, is likely to be affected, with most of us seeing a significant erosion on our portfolios.

Kulkarni feels this may become relevant to investors particularly if the damage to the economy is pronounced and it takes longer for the demand and growth environment to revive. Accordingly, investors with meaningful weightage to equities in their portfolio and

witnessing erosion in their portfolio value, will be required to reduce their expected returns in the near-medium-term, which could affect the growth of their portfolio.

“Long-term goals are so for a reason. There is enough time for those goals to arrive in your life. So, the pandemic should not worry you much with regard to these goals,” says Chenthil R Iyer, Founder and Chief Strategist, Horus Financial Consultants.

With the mutual funds all dipped in red, the first instinct for investors would be to pull out money. However, that is not a wise thing to do.

“For those who are invested in such a portfolio for their long-term objectives, remaining invested and continuing with Systematic Investment Plans (SIPs) is the most logical choice. While the markets are likely to remain volatile at least for the next few months, stopping SIPs or withdrawing unnecessarily might prove detrimental to long-term objectives. Ask yourself again, what have you invested for? Your goals and objectives should reflect your decision-making,” says Prateek Mehta, Chief Business Officer, Scripbox.

Currently, almost all equity-oriented funds are experiencing a performance hit as all sectoral indices are trending downwards. “Hence, the last three months are not a suitable time frame to evaluate the performance of a fund. Before moving from funds, one needs to look at consistent medium-term under-performance, tax implications and exit load costs,” says Mehta.

Agreeing with the idea, Rajesh Cheruvu,



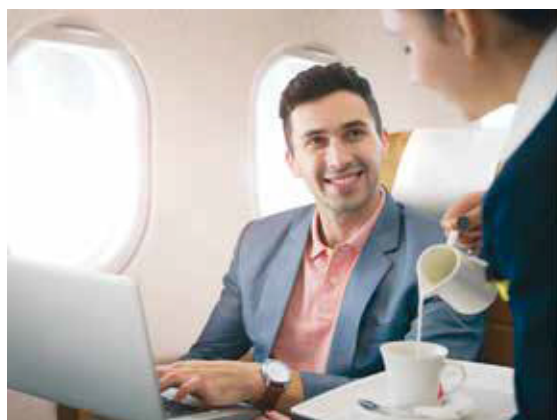
CHENTHIL IYER,
Founder and Chief Strategist,
Horus Financial Consultants

Recovery will be slow and there could be a bit of a fall afterwards too, but one has to be in it to win it

Chief Information Officer at Validus Wealth says, “SIPs are generally for long term goals and hence we would recommend to continue in the funds as long as funds are suited to risk profile, time horizon and consistent performers in the respective category. An investor should evaluate the funds periodically or take help of investment advisor to decide whether to continue or exit the fund. However, if we are exiting any fund, amount should be redeployed in line with investment horizon and risk profile.”

Continuing with SIPs are also important for another reason. “SIPs are going to be the beneficiary of this downfall simply because investors will be accumulating higher number of units at lower net asset value. Whenever, the markets are going to get back to the higher levels, the units bought during these times will help the overall SIP to give you good returns,” says Amit Suri, Director and CEO, AUM Wealth Management.

On the other hand, those who have a higher risk appetite and choose to invest directly in stocks, this is a good time. “Maybe it’s a good



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PRATEEK MEHTA,
Chief Business Officer, Scripbox

Remaining invested and continuing with SIPs is the most logical choice

time to invest more money into long-term assets like equities, which are available at a good price now. The recovery will be slow and there could be a bit of a steep fall after you buy, but one has to be in it to win it! A good strategy could be partial entry at various levels to average out the price points,” says Iyer.

One also needs to understand that the impact will vary depending on how far the goals are. “For those with long-term goals at least a decade or more away, if this crisis is anything like previous market and economic crisis, the impact is likely to be made up by significant growth in post-crisis periods,” confirms Mehta. So, if you are in your mid-thirties or even in your mid-forties, you do not need to make significant changes to your portfolio as you have time on your side.

However, if you are approaching a major goal like retirement and have not made a switch to a stable asset class yet, this is likely to come as a rude shock. In such a scenario it

is important to cut one's expenses as much as possible and increase savings rate. The time for recovery is unpredictable and there could definitely be a long, dark path ahead. “Ensure that there is adequate liquidity available and be prepared to liquidate a real estate investment in case of any major goal falling due in the near vicinity as loans may get more expensive as governments may need to borrow heavily to tide over the current situation and provide for welfare programmes for the affected population due to a complete lockdown,” advises Iyer. Therefore, in case you have any near-term goals, which require large cash flows, contemplate postponing the same by a couple of years or exit proportionately from all asset classes to fund the same without worrying about exiting at a loss.

Should one make a change to one's portfolio in such a situation to keep their long-term goals on track?

“Long-term goals are generally buy-and-hold and one should not monitor the long-term corpus very often. Investors who held on through the 2008 crisis, have made up the losses and even extracted gains in the long run. Hence, micro-monitoring a long-term investing portfolio should be avoided,” says Cheruvu.

Investors should be very clear about their asset allocation depending upon long-term as well as short-term objectives. Since asset allocation assumes a risk tolerance with respect to the investor, it should not be altered too often.

In such a situation, it would make sense to rebalance one's portfolio to keep the asset allocation intact. When equities are performing very well, their allocation on your portfolio goes up. “Similarly, in periods such as the current coronavirus environment, wherein equity markets have crashed 25 per cent to 30 per cent and have eroded equity value as well as brought down the percentage of equity allocation, it makes prudent sense for a long-term investor to buy equity and restore the asset allocation,” says Kulkarni. Of course, this adjustment need not be done in a single day, but can be spread over a few days or even a few weeks, in order to ride the volatility. ■

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How Not To Let The Virus Affect Your Long-Term Goals

- Continue with your SIPs, do not stop them
- If you decide to exit from a fund, redeploy the amount into another suitable fund
- Rebalance your portfolio over a period of time to keep your asset allocation intact
- For those investing in stocks this could be a good time to buy
- If your goal is near, cut down on expenses and liquidate some of your investments.
- If possible, postpone your goals by a couple of years
- Stay invested in gold asset class based on your asset allocation

Health Insurance Cover For COVID-19

Even as coronavirus is covered by health insurance, companies are offering new products

By **Anagh Pal**

With over 30,000 dead and 6.6 lakh infected with the COVID-19, nobody is safe from the virus anymore. India has been pretty successful in containing the virus and the next fortnight or so will be crucial.

“As we know that India no longer remains immune to coronavirus and with the rising number of confirmed and suspected cases, the regulator has taken stringent steps to ensure that claims related to coronavirus are expeditiously handled,” says Prasun Sikdar, MD & CEO, Manipal Cigna Health Insurance.

The first question that comes to our mind is - If I am infected by the virus and need treatment, will my existing health insurance cover me?

“A health insurance policy covers all infections and the novel coronavirus is one such infection. Coverage will be available for all indemnity products that offer hospitalisation covers,” says Mayank Bathwal, CEO, Aditya Birla Health Insurance.

Says Gurdeep Singh Batra, Head- Retail Underwriting, Bajaj Allianz General Insurance, “Your existing policy will protect you against coronavirus. Every insurance policy has a 30-day waiting period for any disease. For all those fresh policies that have exhausted the 30-day waiting period, every claim will be payable for coronavirus under the policy. The regulator has already issued a circular saying that all coronavirus cases have to be attended to on priority.”

Agrees Sanjay Datta, Chief, Underwriting, Claims and Reinsurance, ICICI Lombard GIC, “All group/corporate and retail health policies will cover coronavirus related hospitalisation expenses. Testing and other diagnostic related medical expenses will be covered under the health policy if out-patient cover is opted. In case an instance leads to hospitalisation, expense for such tests will be covered under pre-post medical expenses.”

However, one needs to be hospitalised for at least 24 hours to be covered under any health insurance policy. Also some policies may not



cover you if you have visited any of the countries with high levels of infection after a government advisory against doing so.

Batra suggests that under any such circumstances, health insurance coverage with an adequate cover is the key. The health insurance policy should also have wider cover. He advises that one should read the policy terms carefully before buying so that one does not end up buying a cheap policy with a restricted cover. You should also opt for additional cover for expenses like OPD and so on.

Insurance companies are on the way to launch coronavirus specific policies. Star Health and Allied Insurance has launched ‘Star Novel Coronavirus Insurance Policy’, a benefit policy to cover all those who test positive for the current pandemic COVID-19 and require hospitalisation. The Star Novel Coronavirus



GURDEEP SINGH BATRA,
Head- Retail Underwriting, Bajaj Allianz
General Insurance

The regulator has said all coronavirus cases have to be attended to on priority

Follow Guidelines, Ensure Safety

Will your health and travel insurance policies cover for coronavirus?



SANJAY DATTA

It has been declared a global health emergency and pandemic by the World Health Organization and has already claimed thousands of lives since being first reported. The coronavirus outbreak has sent governments, people and markets into a tizzy.

With the virus spreading thick and fast across the globe, insurers are being flooded with queries from concerned policyholders as to whether their respective health and travel policies would cover them in case they are diagnosed with this virus. If you too have a similar query, read on to find the answer.

Coronavirus is a family of viruses capable of causing a range of illnesses in humans including the common cold, with more severe forms being Severe Acute Respiratory Syndrome (SARS) and Middle East Respiratory Syndrome (MERS). If you are diagnosed with the virus and need to undergo hospitalisation for treatment, your health insurance policy in all probability would provide coverage for the same. This will be basis the policy terms and conditions of the health policy of the insured

A disease like corona does not fall in the category of pre-existing ailments, and therefore will be covered under the base plan. If you seek the treatment for this virus, your existing health plan will reimburse expenses incurred on treatment of the disease as per the policy's terms and conditions.

The claims process is the same as in the case of any other ailment. You can either opt for reimbursement or opt for a cashless method in a networked hospital by your insurer.

This is a tricky aspect as whether your travel policy would provide coverage for corona depends on the insurer. As it has been declared an epidemic by the

WHO, many travel plans exclude losses incurred directly or indirectly arising due to corona.

Having said that, if you are infected with the virus during transit, then you can receive coverage. In case you are travelling abroad, make sure to follow government guidelines to ensure safety.

With the increasing prevalence of the virus across the globe, some insurers have decided against issuing policies in countries affected by the virus.

As there's no specific treatment for coronavirus, it is better to adopt precautionary measures to ensure safety. You must wash your hands with soap or sanitizer often, and avoid crowded places as much as possible.

It is also essential to cover your face with tissue or handkerchief while sneezing and maintain at least a distance of a metre from someone who is sneezing and coughing. It is advisable to avoid touching eyes, nose and mouth, as there it increases chances of the virus being transmitted, and wear a mask while commuting.

At the same time, it is better to restrict visits to relatives and friends who have recently travelled in regions under the effects of COVID-19.

Given the gravity of the situation, it's in your best interest to refrain from travelling to China and countries being affected by the outbreak. Watch out for symptoms like fever, coughing, and shortness of breath and seek medical help at the earliest.

Also, keep an eye on the updates issued by local authorities and the government. Follow the advisory issued to mitigate the risk of getting infected. ■

The author is the Chief - Claims, Underwriting and Reinsurance, ICICI Lombard General Insurance

policy will provide a lump sum payment to any insured between age 18 years to 65 years, who is declared positive by a government-accredited test and is hospitalised for the coronavirus. Importantly, the policy does not have any international travel history related exclusions

ICICI Lombard has also launched a COVID-19 Protection Cover. The policy will pay 100 per cent of sum insured on positive testing for COVI-19. However, it has a 14-day waiting period with no overseas travel history.

As far as travel insurance is concerned, if one travels against a government advisory, as is the case with most countries now, it is at your risk and it is excluded from the policy. If you had bought a travel insurance policy before such advisory had been issued, some policies will pay you the cancellation charges too. But if you still decide to travel due to some emergency, the policy will not pay anything related to the epidemic. ■

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All You Need To Know About Motor Insurance

Motor insurance offers protection against third party damages and theft or damage to own vehicle. While third party liability cover is mandatory, comprehensive insurance is optional

Motor insurance basics:

Motor insurance is a policy that protects the owner from any financial losses that may arise in case the vehicle is damaged or stolen. It also covers for the liability towards third party injury or death caused by the vehicle accidentally. It can apply to cars, both passenger and commercial vehicles, trucks, buses and also two/three wheelers as well.

The concept of Motor insurance

When you purchase motor insurance, you get into a contract with the insurance company. To avail the policy you need to pay a sum on an annual basis called premium. In case you do not make a claim for any damages during the policy term, the insurer

Add-on Covers

Some important add-on covers to consider

- **Zero depreciation cover:** Full parts amount is covered in the claim settlement
- **No claim bonus protection:** If the insured has opted for this add on cover, then in case of a claim (specific cause of loss), the insured will not lose the NCB accumulated under the motor policy
- **Emergency assistance:** In case of a vehicle breakdown, this provides round-the-clock assistance
- **Engine protection:** Covers damages to the engine due to water-logging and other reasons
- **Cost of consumables:** Pays for the cost of consumables which need replacement during the repairs of the vehicle damaged in an accident
- **Return to Invoice:** This cover pays full invoice value + taxes in case of total loss / theft of vehicle

rewards you with a no-claim bonus (NCB). This can range from 20-50 percent of the own damage cover premium you pay.

"We need to understand that mandatory insurance only cover the Third Party liabilities; it does not provide benefits of Comprehensive Motor like protection in case of self-damage and natural or man-made disasters. It is imperative that the customers opt for Add-on insurance covers like Engine Protection, Emergency Assistance and Zero Depreciation covers which protect them from significant financial loss. Most of the customers also tend to lose out on the continuous protection in case they do not renew their policies.

Therefore, a motor insurance is of utmost importance, not only to relieve you from your financial burdens but also to relieve you from the mental stress you could suffer in case of an accident."

Mr. Parthanil Ghosh,
President – Motor Business, HDFC ERGO

losses that are caused to a third party by the insured's vehicle. The policy will also cover the insured from legal liability which may arise from the damages suffered by the third party.

2. Comprehensive insurance:

As the name suggests, comprehensive insurance provides coverage to the insured for damage of their own vehicle, provides coverage towards the personal accident – injury or death of owner / occupants if opts for and third party liability.

3. Standalone Own damage insurance:

The policy provides coverage to the insured for damage of their own vehicle only. This cover could be opted if the customer already has a third party cover.

Under the Motor Vehicle Act 1988, third party liability insurance is mandatory for all vehicles. However, comprehensive insurance/ Standalone own damage policy is optional. To further understand the importance of a Comprehensive cover, let's look at what is covered under the policy:

Physical injury/

Death: In case the insured himself suffers any physical or bodily injury in an accident, the policy will provide for a fixed benefit amount. Coverage of the owner-driver of the vehicle is mandated by law.

Damage to the vehicle:

It covers the cost of damage to the insured vehicle due to an accident, theft or certain natural calamities. 

Insured Declared Value (IDV)

IDV is the maximum sum assured which the insurer will provide in case there is theft or total loss of the vehicle. IDV is calculated taking into account the manufacturers listed (Example - Showroom) price and factoring in depreciation.

Types of Motor Insurance

In India, there are three types of motor insurance:

1. Third party liability insurance:

This covers any bodily injuries, damages or



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FARZANA SURI

COVID-19: Where Do We Go?

This is a year of growth in the dimensions that need change

Life is a constant cycle of learning and transformation. We are in the first quarter of 2020 and the implications of the Universal number 4 ($2+0+2+0=4$) are being felt. Number 4 signifies reconstruction and re-evaluation of our vision. It encourages hard work, discipline, structure, realistic goals and the need for security in the wake of ensuing obstacles. Add to it the wobble of the Leap Year, makes the need for balance, all the more crucial. It is a pivotal year where materialism is being forced take a backseat.

This is a year of growth in the dimensions that need change. Changes are sudden to bring order in your life, especially in the areas of finance and health. It induces confinement, restrictions and hurdles.

On a positive note, it reminds you of the strength in going slow, exercising thrift and budgeting your excesses. It may get you involved in government-related or collective projects, reworking both your business as well as personal strategies.

The recent 'awakening' with the pandemic, is likely to place things in perspective that you need to live your life in a different way. Perhaps be true to yourself and your needs. Open yourself up to new possibilities of leading a more fulfilling life. It guides you to transform, transition and flourish.



What is needed most, is to emphasise things that are missing most to get through this period. Have patience, inner work, organization, altering beliefs and resilience. Play by the rules. This is not the time to give in to greed. Comply with the laws and regulations. Even minor violations can negatively impact your financial growth with hefty fines. Stay on top of your game. Be visible and act responsibly. Remember financial security demands better moral sense and ethics. It is your family that remains your core strength.

For the financial community, it is the time to heed the clarion call for balance. Re-calibrate and adjust your view of the world. Use the energy of the year to build, cautiously with level-headed conservatism. It demands thorough research before you decide to invest. You may have to keep your spending down to a minimum and avoid all but guaranteed (safe) investments, for now. Sectors in IT, medicine, engineering, may see impetus.

The confusion and chaos, is perhaps necessary for the growth of humanity and our personal evolution, too. The challenge you face, may create new paths. Those who rise to stride towards it, will move ahead with greater ease. Release and surrender that which doesn't support your progress. It's time to work on a new business idea and do things, differently. While, co-operation and teamwork are the new way, it is also the time to partner with ourselves.

Avoid unnecessary confrontations. Keep a lid on your anger however, do not bottle up your emotions. Make room for flexibility. Clinging to fixed beliefs and ideas could be counterproductive. A good idea to lean in to people who encourage and inspire you. Seek professional help, if needed.

The next two quarters are challenging. The cloud of uncertainty, is likely to clear up towards June with August demanding more of you. In the period between September and December, you may see some semblance of 'normalcy'.

Keep the hope alive, hold firm to the seed of peace and shut off everything that causes you undue stress.

Be home. Stay safe. Pray for peace.

This, too shall pass. 

The author is a Victory Coach

STEPS TO TRADE IN THE COMMODITY MARKET

Commodities refer to assets or goods like food, energy or metal that has an importance in everyday life. The commodities market works like any other market. In the commodity market one can buy and sell commodities at a present or future date. For investors who want to diversify beyond equities and real estate, commodities are a good option. However, investing in the commodities market comes with a set of risks. A beginner needs to understand the market thoroughly before investing. Here are the steps to start investing in the commodities market.

Choose the stockbroker:

The first step is to choose a good stockbroker. The stockbroker must be registered with Sebi. This is an important step as the stockbroker is responsible

for executing your trades. The broker will also give you recommendations to make the correct trading decisions. Before choosing a brokerage it is important to check all the various fees involved. Brokerages provide a brokerage calculator which helps you get an idea of fees and compare it with fees charged by competitors.

Open a trading account:

Since 2017, you can use the same trading account to trade for stocks and commodities. For this, you need to fill up an application form with the broker and provide information like age, income, financial status and

so on. Once your application is approved, the account is opened.

Start off making the minimum investment:

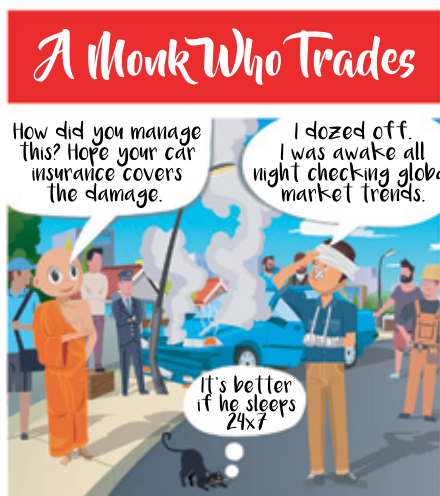
When you are starting off, it is recommended that you make the minimum investment. Once you open an account, you would need to make an initial deposit to start trading in commodities. The initial deposit varies between 5-10 per cent of the contract value. Also, you need to pay a maintenance margin. This is a minimum amount of money which you need to pay your broker so that any losses you make can be deducted from it.

Devise a trading strategy:

Before you start investing, you need to frame an investing strategy. Without a proper strategy, you will be taking on a lot of

unnecessary risks. For this, it is important to understand how the commodity markets work. You also need to get an idea of your risk appetite and the capital you can spare. To begin with, you need to focus on a certain commodity or a group of commodities. Then you need to decide whether you want to be a long term or a short term trader. When you are placing an order, you should also place a stop loss order to limit the risk of trade. It is also important to keep record of all trades that you make. Over time, you will learn what strategies work best under which circumstances. To sum it up, a trading strategy is like a roadmap that tells you how to go about commodity trading. Without a proper trading plan, you will lose direction and end up going wayward.

Remember, like anything else, you will become better at the game with more practice. ●



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Market Share In Key Segments Climb

Working on commercialising the innovation pipeline

By **Himali Patel**

A perfect blend of premiumisation, innovation and cost reduction has led Crompton Greaves Consumer Electricals (CGCE) post revenue growth largely in-line with most brokerage firms for the third quarter (Q3) results in FY2020. The company reported a revenue growth of 4 per cent Year-on-Year (Y-o-Y) at Rs 1,071.2 crore. CGCE is into manufacturing of a wide range of consumer products that include fans, lamps, household appliances like water heaters, grinders and irons. The Electrical Consumer Durables (ECD) segment saw a growth of 11 per cent based on a strong performance in fans, domestic pumps and appliances.

Its volume growth in fans stood at 8 per cent Y-o-Y. The market share in fans is around 27 per cent, which improved by 80 basis points Y-o-Y. CGCE is number two in premium category of fans with about 20 per cent in fan sales. However, the revenue of lighting segment declined by 11 per cent despite its strong double-digit volume growth in Q3FY2020. The segment is undergoing challenging times led by pricing pressure and macro factors.

On the operating front, Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) rose 8.6 per cent Y-o-Y to Rs 140 crore, and the EBITDA margin was up by 12.8 per cent Y-o-Y. "We raise our FY21 estimates (e) /FY22e PAT ~3 per cent each and expect 11 per cent/18 per cent Compounded Annual

Growth Rate (CAGR) in revenue/PAT over FY19-22, fuelled by a ~15 per cent rise in ECD and a small, 86bp expansion in EBITDA margin (on investments in advertising and promotional and channel expansion), says an analyst at Anand Rathi Share and Stock Brokers.

The company is working aggressively on the cost front, as well as on commercialising the innovation pipeline, by introducing a series of innovative products such as silent pro fans with a superior performance. The distribution has expanded in fans and B2C lighting.

The management is stepping up investments in long-term brand building. "Crompton is focusing on significantly scaling up in three appliances category of geysers, air cooler and mixer grinders (collectively Rs 10,000 crore market) where it had insignificant presence till last year but wants to be the second largest player. Post portfolio revamp, Crompton has garnered 11 per cent market share in geyser (vs 8 per cent Y-o-Y) as it posted 66 per cent volume and 64 per cent value growth in 3QFY20," points out an analyst at Nirmal Bang Institutional Equities Research. The new management strategy is working out well as the company prides best operating margins and free-cash-flow generation, which bodes well for the investors. Brokerages like Motilal Oswal Financial Services, Emkay Global Financial Services, Anand Rathi Share and Stock Brokers and Reliance Securities are giving favourable forecasts for CGCE in the long run. ■

**Crompton Greaves
Consumer Electricals**

➔ **CMP: 214.15**

➔ **PE: 25.05**

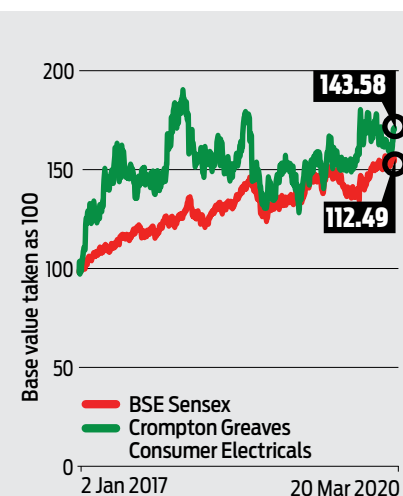
*As on March 20, 2020

Why Buy

- Lean balance sheet with strong return ratio and healthy prospects
- Increasing market share across all business segments

Watch out for

- Competitive market and weak summers might impact margins



Source : BSE India

Financials

Net sales (₹ crore)		PAT (₹ crore)	
FY19	4478.91	FY19	401.38
FY18	4079.66	FY18	323.79
FY17	3900.89	FY17	283.17
OP (₹ crore)		EPS (₹)	
FY19	632.33	FY19	6.402
FY18	561.79	FY18	5.166
FY17	504.13	FY17	4.518

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

Playing Along With Domino's Effect

Bringing more brands under one umbrella helps

Despite facing intense competition from local players and food aggregators, Jubilant FoodWorks (JUBI), one of India's largest food service companies has gained market share over the last three quarters driven by its brand Domino's. With concerns over COVID-19, experts see a short-term hiccup and suggest investors to focus on the long-term earnings and market share position of JUBI. An analyst at Motilal Oswal Financial Services points out that Jubilant FoodWorks dominates the Quick Service Restaurant (QSR) pizza segment with over 70 per cent market share. It is the largest player.

For the third quarter (Q3) of FY2020, the company opened 47 stores, marking the highest store opening count in 20 quarters. It holds exclusive rights to operate the brand Domino's Pizza in India, with a network of 1,325 restaurants spread across 282 cities as on December 31, 2019. JUBI has also acquired rights for developing and operating 32 Dunkin' Donuts outlets across 10 cities in India. "It has revised store addition guidance for FY20 from 120 stores to 140-150 stores. We have revised estimates for FY20-22. We value the stock at 40x FY22E Earnings Per Share (EPS)," says an analyst at IDBI Capital.

On the company's financial front, the operating revenues for Q3 FY2020 stood at Rs 1,059.6 crore, with a 14.1 per cent growth over Q3 FY2019. Like for Like (LFL) sales growth for Domino's Pizza rose 7.2 per cent for the quarter.

Same Store Growth (SSG) was 5.9 per cent Year-on-Year (Y-o-Y). The company attributes the strong performance to its delivery service, which contributes to 87 per cent of online sales. It recently launched Masala Pizza along with a new campaign - Dil, Dosti, Domino's range, which aided sales growth, during the quarter. "Healthy demand environment, favorable base of 4 to 6 per cent SSSG in next 4 quarters and incrementally benign outlook on operating cost augur well for >25 per cent earnings growth over the next two years," says an analyst at Motilal Oswal Financial Services.

On the operating performance, the company's Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) for third quarter rose 23.9 per cent of revenue at Rs 253.6 crore. The Profit After Tax (PAT) saw a growth of 9.8 per cent of the revenue. On a flipside, the company's business faced a significant dairy inflationary, which impacted gross margin. However, the focus on operating efficiencies, targeted promotions, reduction wastage has helped it to mitigate the raw material inflation during Q3 FY2020. Despite competition from aggregators and local players, JUBI is focused on improving its strategy towards new launches and affordability. It has partnered with food aggregators Swiggy and Zomato. This strategy provides Domino's a presence in 500 cities. Its aspiration to bring more brands under one umbrella with non-linear growth favours growth prospects. ■

himali@outlookindia.com

Jubilant FoodWorks

➔ **CMP: 1490**

➔ **PE: 57.64**

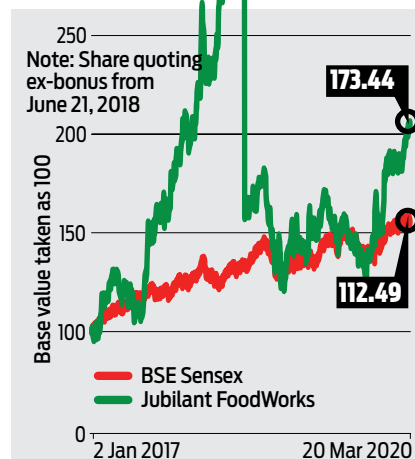
*As on March 20, 2020

Why Buy

- Strong revenue growth with retail expansion and launch of new products
- JUBI is improving SSGs and growing faster than peers

Watch out for

- Impact on margins on account of increase in raw material cost and competition from local players



Source : BSE India

Financials

IE (₹ crore)		PAT (₹ crore)	
FY19	3563.145	FY19	317.98
FY18	3018.4	FY18	196.227
FY17	2583.389	FY17	57.775
OP (₹ crore)		EPS (₹)	
FY19	647.124	FY19	24.232
FY18	463.166	FY18	14.869
FY17	255.874	FY17	4.38

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

THE WORLD OF ALTERNATE CURRENCIES



Mr. Bharat Phatak

Director, Wealth Managers (I) Pvt. Ltd.

The Supreme Court recently removed the ban on dealing in cryptocurrencies imposed by the Reserve Bank of India. Bitcoin is the most well-known, but there are many others such as Ethereum, Ripple. While it may now be legal, investors must know the high degree of risk.

Currencies have played an important part in the development of human society. Barter trade was replaced by metal coins in gold, silver, copper and

nickel, issued only by the kings in their own kingdom. As the banking system developed, paper currency gained. The transactions were not based just on physical delivery of currency, but also on balances held in banks. Money multiplier effect helped the growth of trade.

In early days, the issue of currency was backed by equivalent amount of gold being held by the government. World War II saw many economies shattered and their deficits ballooned. The rise in international trade also necessitated a standard method for comparing different currencies. This led to the Bretton Woods agreement in 1944. The US Dollar was pegged to gold. Other currencies were also aligned to this rate and a mutually acceptable system was adopted.

Rising fiscal deficit in the US economy in the 1960s led to higher money printing, resulting into breaking of the gold relation in 1971. The control on issue of currency became more and more lax in the last 50 years. The central banks in the respective countries now have the authority of money printing. Economist John Maynard Keynes propounded the theory of stimulating economic growth by increasing money supply and many countries embraced it. After the sub-prime crisis in 2008, there was a synchronised action by central banks in all developed countries to print more money and avert the risk of recession. Similar emergency action is also taken in the present COVID-19 crisis. The Austrian school of economics opposes the Keynesian approach and believes that such money printing threatens the global economy.

What we consider an “asset” is someone else’s liability. This is true for bank deposits, government securities, corporate bonds, municipal bonds, company shares – in short, all financial assets. It applies to paper currency as well. It is the liability of the government which has issued it. The case of physical assets is different. If I own gold or property it is not anyone’s liability and hence it



has no counterparty risk. Commodity money falls in this category. Gold has been trusted by mankind for thousands of years as a medium of exchange.

In today's digital world, the concept of a digital currency has emerged in the form of cryptocurrency. It is based on a technology called Blockchain. This is a database system, which is like a transparent open ledger. It has many other applications and is considered a safer database technology. The first known cryptocurrency – Bitcoin- was launched in January 2009. A reclusive Japanese Mr Satoshi Nakamoto is believed to be the initiator of Bitcoin. The central feature is that the its supply is limited to a maximum number of 21 million Bitcoins. The different transactions in the database are required to be reconciled and participants who work for this are rewarded in Bitcoins. This activity is called “mining”. Stacks of computers with graphic processing units are today used in cryptocurrency mining. The degree of difficulty and cost of mining has been going up, as we approach the ceiling.

The supporters of crypto currency also challenge the sovereign authority for issuing and regulating. They also have no geographical limits and hence nearly impossible to regulate. There is also a darker side to this aspect. The digital currencies are possibly used for terrorist funding, the underworld and demands for ransom by hackers are made in crypto currency. The government authorities also find this an encroachment on their sovereign right and would look at fighting the spread of digital currencies. Recently, there were news reports that the Chinese government was considering issuing its own crypto currency. This could become a

**Bitcoin is the most well-known,
but there are many others such
as Ethereum, Ripple.
While it may now be legal,
investors must know the high
degree of risk.**

new hybrid model. It could become more acceptable by users, but could turn out to be a new weapon in the currency wars. It could also mean more surveillance of the users.

Two ingredients for a currency are limited supply and wide acceptance, which historically, gold has fulfilled. Initially limited supply for Bitcoin was also believed, but today we have over 6,000 alternatives thus undermining the limited supply.

Valuation of any asset is based on the stream of future cashflows. In absence of cash flow, it cannot be applied to currencies, including crypto. They will be “priced” based on their perceived value. If perception changes, prices have no support. In the late 90's, Dot Com companies without a revenue model were priced on “eyeballs”. Many lost 100% capital. We also cannot overlook that some of the most valuable companies today are Dot Coms. Hence it will not be right to ridicule the digital currencies. Without knowing their survival and valuation model, coupled with extreme price volatility we should avoid crypto currencies as an “investment”. ■

HDFC Short Term Debt

Investment Strategy

Anil Bamboli is an experienced and skilled manager and has led this fund since June 2010. Bamboli is supported by an investment team that is composed of head of credit Shobhit Mehrotra, manager Anupam Joshi, three credit analysts, and two dealers, who also contribute to the research. Mehrotra and Bamboli together have an average experience of more than 18 years in portfolio management, which makes them a highly experienced duo.

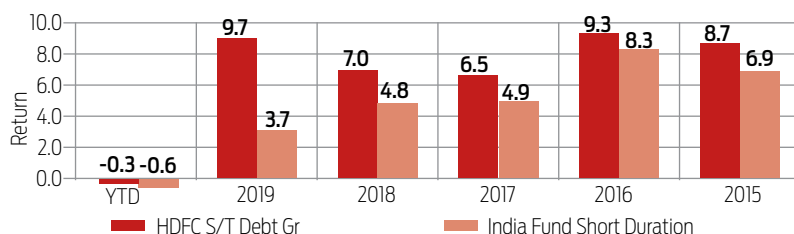
Manager Anil Bamboli seeks to add value through security selection rather than taking duration bets. The investment approach relies on fundamental research. It entails combining qualitative aspects with quantitative analysis. The investment team prepares the coverage list with a strong focus on the company management and track record, financial strength of the promoter group, and corporate governance standards.

Meetings with management are followed by rigorous quantitative analysis in which the focus is to get a measure of the company's creditworthiness. The team studies the company's cash flow and relevant ratios-leverage, coverage, and solvency. The team also draws on the expertise of their counterparts in the equity team. The fund company uses a proprietary model in which qualitative and quantitative inputs are used to arrive at a credit score for each issuer. This in turn helps managers determine the exposure they can take to each issuer, thereby acting as a risk-management tool. Here the investment team lays more emphasis on risk control.

Broadly, the portfolio is composed of more than 80% of assets in AAA/ equivalent-rated securities. The credit bets are taken tactically and are capped at 20% of the portfolio. The focus is to not compromise on the fund's risk profile.

Calendar Year Returns

Calculation Benchmark: None



Trailing Returns

Data Point: Return Calculation Benchmark: None

	YTD	1 Year	3 Years	5 Years	10 Years
HDFC S/T Debt Gr	-0.28	7.32	7.18	7.76	—
India Fund Short Duration	-0.61	1.42	4.00	5.21	6.40

Fixed-Income Statistics

Fixed Inc Style Box (Long)	High Ltd
Average Eff Duration	-
Average Eff Maturity	3.1
Average Coupon	8.1
Average Price	-

Fixed Income Style Box

			High
			Med
			Low
Ltd	Mod	Ext	

Top Holdings

	Portfolio Weighting (%)
Treps - Tri-Party Repo	5.93
Net Current Assets	3.23
State Bank Of India	2.35
Tata Sons Limited	2.17
State Bank Of India	2.10
Housing Development Finance Corporation Limited	2.09
LIC Housing Finance Limited	2.05
Power Finance Corporation Ltd.	2.01
NATIONAL BANK FOR AGRICULTURE AND RURAL DEVELOPMENT	1.73
Tata Capital Financial Services Limited	1.64

Fund Snapshot

Morningstar Category	India Fund Short Duration
Fund Size (₹)	122.2 billion
Inception Date	25/6/2010
Annual Report Net Expense Ratio	0.40
Morningstar Rating Overall	*****
Manager Name	Multiple
Minimum Investment (₹)	5,000
Morningstar Analyst Rating	Silver

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HDFC Small Cap Fund

Manager Biography And Fund Strategy

Setalvad ranks amongst the best portfolio managers in the India small/mid-cap Morningstar Category. He has been managing this fund since 2014 and has been associated with HDFC since 2007. We view his long tenure at the fund house as a positive. The analyst team is composed of seven members who have an average experience of more than 14 years.

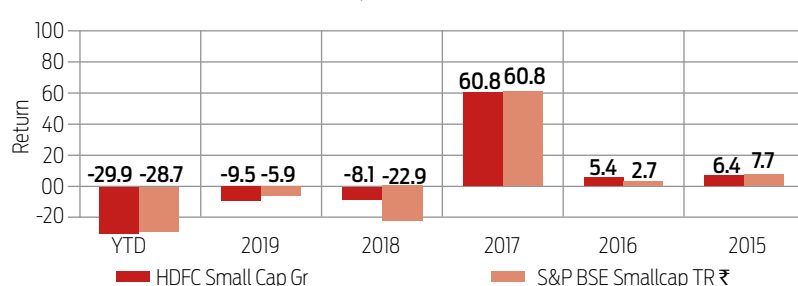
Chirag Setalvad emphasizes understanding businesses before investing. He adopts a hands-on approach to research, in order to identify companies with robust business models, strong competitive advantages, and clean balance sheets. Setalvad looks for tangible business models with a track record. Emerging companies with untested business models don't find favor with him. He typically looks for companies that can generate reasonable free cash flows and have high ROEs. Setalvad combines absolute and relative valuation parameters to

select stocks that aren't too expensive relative to their growth prospects. Broadly speaking, the investment style can be characterized as growth at reasonable price. Setalvad has consistently adhered to his professed style of investing in quality businesses with established track records. This incorporates an element of predictability to the investment process, one that will likely hold the fund in good stead over longer periods. The investment process follows a bottom-up approach.

Chirag Setalvad is benchmark-agnostic when constructing the portfolio. This has resulted in a portfolio that often differs significantly from the IISL Nifty Free Float Small Cap 100 Index and the category norm. The portfolio follows a diversified approach, currently consisting of around 70-80 stocks with individual holdings typically accounting for around 4%. The top 10 holdings account for around 25%-30% of the portfolio.

Calendar Year Returns

Calculation Benchmark: S&P BSE Smallcap TR ₹



Trailing Returns

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

	YTD	1 Year	3 Years	5 Years	10 Years
HDFC Small Cap Gr	-29.91	-38.30	-5.97	0.79	6.99
S&P BSE Smallcap TR ₹	-28.70	-33.70	-10.61	-1.68	2.60



Portfolio Date:
29/2/2020

	%
Basic Materials	13.0
Consumer Cyclical	23.0
Financial Services	9.6
Real Estate	0.0
Consumer Defensive	1.6
Healthcare	8.5
Utilities	3.1
Communication Services	6.0
Energy	1.3
Industrials	19.5
Technology	14.4
Total	100.0

Top Holdings

	Portfolio Weighting (%)
Sonata Software Ltd	3.25
NIIT Technologies Ltd	3.25
INOX Leisure Ltd	3.09
Balkrishna Industries Ltd	2.87
Bajaj Electricals Ltd	2.70
Atul Ltd	2.69
DCB Bank Ltd	2.46
Indian Hotels Co Ltd	2.43
The Federal Bank Ltd	2.27
Procter & Gamble Health Ltd	2.24

Fund Snapshot

Morningstar Category

Fund Size (₹)

Inception Date

Annual Report Net Expense Ratio

Morningstar Rating Overall

Manager Name

Minimum Investment (₹)

Morningstar Analyst Rating

Data Source: Morningstar India

India Fund

Small-Cap

92 billion

3/4/2008

2.19

Multiple

5,000

Silver

Axis Long Term Equity

Manager Biography And Fund Strategy

Jinesh Gopani joined the AMC as an Assistant fund manager in 2009 and has been managing this fund since May 2011. Overall, the team has remained stable since 2016 and has clearly outlined responsibilities.

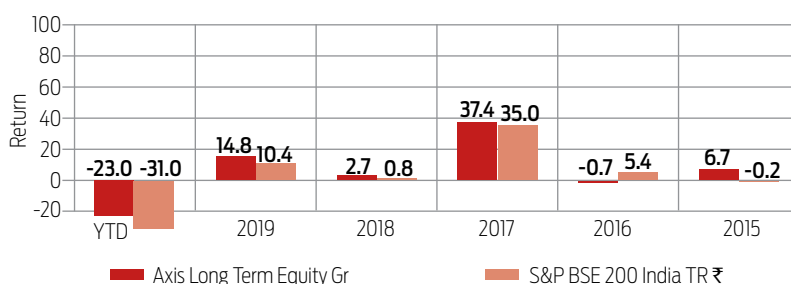
Gopani looks for companies that have the capability to grow over a three- to five-year period and places a lot of emphasis on finding quality names at reasonable valuations. However, he can tend to invest in stocks that are slightly expensive in relative terms as long as they meet his quality and growth criteria. The portfolio holds about 50%-70% large-cap stocks, while small and mid-caps constitute the remaining portion. The focus is on being able to identify companies with sustainable earnings growth potential, credible management, and good corporate governance practices. Stock-picking

is based on fundamental bottom-up research with emphasis on top-down risk parameters, liquidity, and internal volatility targets. From a financial standpoint, the team looks for companies with low capital gearing and strong balance sheets. The fund house seeks to spend more time identifying fresh ideas and researching companies that are not as widely researched by the broader market.

This results in a benchmark-agnostic portfolio that typically shares a very low overlap of about 25%-30% with the S&P BSE 200 Index. The AMC monitors the fund size on a consistent basis and places constraining limits on it, but this number can vary constantly based on the growth and liquidity in the markets. This, in addition to the multicap nature of the fund, should help mitigate the risks of asset bloat.

Calendar Year Returns

Calculation Benchmark: S&P BSE 200 India TR ₹



Trailing Returns

Data Point: Return Calculation Benchmark: S&P BSE 200 India TR ₹

	YTD	1 Year	3 Years	5 Years	10 Years
Axis Long Term Equity Gr	-23.04	-12.52	3.59	3.71	13.46
S&P BSE 200 India TR ₹	-31.03	-27.29	-2.97	0.71	6.21



Portfolio Date:
29/2/2020

	%
Basic Materials	7.4
Consumer Cyclical	13.2
Financial Services	39.7
Real Estate	0.0
Consumer Defensive	14.4
Healthcare	2.4
Utilities	3.8
Communication Services	7.3
Energy	0.0
Industrials	3.8
Technology	8.1
Total	100.0

Top Holdings

	Portfolio Weighting (%)
Bajaj Finance Ltd	8.75
Avenue Supermarts Ltd	8.46
Kotak Mahindra Bank Ltd	8.45
HDFC Bank Ltd	6.35
Tata Consultancy Services Ltd	6.17
Pidilite Industries Ltd	5.72
Info Edge (India) Ltd	5.08
Housing Development Finance Corp Ltd	4.90
Maruti Suzuki India Ltd	4.71
Nestle India Ltd	4.53

Fund Snapshot

Morningstar Category	India Fund
ELSS (Tax Savings)	
Fund Size (₹)	217 billion
Inception Date	29/12/2009
Annual Report Net Expense Ratio	2.13
Morningstar Rating Overall	*****
Manager Name	Jinesh Gopani
Minimum Investment (₹)	5,000
Morningstar Analyst Rating	Bronze

Data Source: Morningstar India

Nurture for growth. Aim to protect and care like you..



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



Investors understand that their principal will be at moderately high risk

Focus On Retail & SME



PRASHANT KUMAR
MD & CEO, YES BANK

*Rajat Mishra caught up with **Prashant Kumar**, the newly appointed MD and CEO of Yes Bank who shared his roadmap and plans on the banks revival. Edited Excerpts:*

➤ **Do you think the failure of financial institutions like PMC Bank and Yes Bank have largely eroded people's trust in the Indian banking system?**

For a very long time, the customer was having a trust on Indian banking system, hoping the money was absolutely safe. So, when PMC crisis happened, which was a cooperative bank, there were some concerns. Subsequently, the Yes Bank crisis happened, which is a scheduled commercial bank.

However, I think everybody has acted really fast during Yes Bank crisis. A revival plan has come out. Not only SBI - the largest public sector bank - but seven other private sector banks too are part of this unique revival plan. The government and Reserve Bank of India have also acted very fast. And within 13 days the scheme was formulated and implemented. The moratorium was lifted within 13 days. The RBI governor assured that in the past not a single depositor of the scheduled

commercial bank lost any money and in the future too this is not going to happen. According to me this assurance was something very important and we have not seen such assurances coming from the RBI in the past. So, I think, this signifies that nobody needs to lose faith in the system.

➤ **After Yes Bank crisis unfolded do you see this having a spill-over effect on other sectors and the economy at large?**

What we are seeing is not happening only in the banking sector. Unfortunately, because of the coronavirus there are other events, happening in the economy. There is a tendency of customers running to safety. Hence, money is flowing more into the public sector banks, despite a low rate of interest. What we have seen is that people are more worried and money is continuously flowing from the private sector to the public sector. That is still a concern.

Secondly, NBFC crisis had an impact on credit growth in other sectors. If the private sector faces the liquidity crunch then supporting credit growth for them would be a challenge. Hence, credit growth has to be taken care not only by public sector but by other large private institutions too, which are sound on their liquidity side. We need to address and arrest this trend. Private sector banks should have enough liquidity to continue with their business of normal lending. Otherwise, lending in the economy would be badly affected.

➔ **Experts are of the opinion that in Yes Bank was sitting on this crisis for a very long time. So, why was the bank allowed to carry on and why did RBI not intervene earlier?**

That is always a debatable question on what is the right time to act. But what we need to see, which is more important, is that the decision was taken very fast. Within 24 hours of the moratorium, the RBI came out with a draft resolution plan. And within one week after the comments from the stakeholders came in, the central government gave its approval and reconstituted the board. The moratorium was lifted within 13 days. We have not seen this in the past, anywhere in the world, where the resolution of a bank is being done so fast - within just 13 days - and the whole banking service was made available to customers.

➔ **Do you think making SBI infuse capital into Yes Bank will adversely affect its balance sheet and in-turn further encourage undue risk-taking by other private banks?**

No, I don't think so. Firstly, we need to understand that this is not a merger. It is a strategic investment from the State Bank of India, which has made such investments in other entities too. For example, there are so many subsidiaries of SBI, like SBI life, General Insurance, Mutual Fund. Thus SBI has made many strategic investments and their returns have been quite high in the past.

Secondly, it is the responsibility of the banking system to come together and support each other during such events. It is not the only large lender. There are many other private sector lenders too who have also joined in. If everybody sits on the sidelines and don't contribute, there will be a contagion effect. So sometimes, we need to come together and try to resolve the problem, so that it is good for the larger interest.

➔ **As you have been working in the banking industry for such a long time, what are the intrinsic problems with the Indian financial system? What are the structural reforms required to stop banks from getting trapped in this kind of crisis?**

If you see the banking system, there was a slowdown. Some of the loans have become Non-Performing Asset (NPA). Especially, after the assets quality review, we observed that the NPA of the banking sector has gone up. The most critical issue is that banks need to understand more about risk in their lending. Basically, the risk management framework has to be sent across. Here, I will not make any distinction between a public sector and a private sector bank. We have seen that whenever such lending have been made, the mistakes have been committed too.

➔ **Now with you at the helm of Yes Bank, what is the road ahead?**

Firstly, we need to improve our liquidity profile and move from bulk deposit to retail deposit. The second most important thing is recovery. If you see the bank's NPA in Q3 results, as on March 14, it is very high. And thirdly, we hope to shift our focus from corporate lending to retail lending. Because whenever you do a corporate lending, there is always a concentration of risk. For entities of our size, I think the most important thing would be to focus more on the retail and SME sectors.

Private sector banks should have enough liquidity for normal lending

➔ **I had conversation with almost 20 retail investors who invested in AT-1 bonds which are written off by Yes Bank as per the exchange filing on March 14. They say they have lost their money. What's your comment on that?**

Firstly, this matter is sub-judice and I would not like to make a detailed comment on this. But whatever has been done is in accordance with the terms and conditions of the bond and as per the regulatory guidelines.

➔ **In this case who do you hold responsible - banking administration who sold these bonds to the retail investors or the retail investors who bought these bonds without knowing the details?**

I am getting feedback from some of the retail customers who are visiting us. We are inquiring how these bonds were sold - whether investors have been told clearly about the risk associated with these bonds. We are looking into this. ■

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AT1 Bonds Write-Off Exposes Gaps

'Misselling' by bank executives leaves investors' trust at stake, triggering risk aversion

By **Rajat Mishra**

The recent wounds created by Punjab & Maharashtra Cooperative (PMC) Bank's failure have not healed yet. With RBI blowing the lid off another crisis in Yes Bank, it left depositors in the lurch, badly shaking people's trust on Indian banking system.

On March 5, 2020, the RBI superseded the board of directors of Yes Bank and put it under moratorium, which was lifted on March 18. Within a few minutes of the announcement, digital payment networks collapsed and even internet and mobile banking services of the bank went dysfunctional. Baffled and

panic-stricken depositors were left with no option other than flocking to ATMs and branches of Yes Bank.

Finance Minister Nirmala Sitharaman and RBI Governor Shakti Kanta Das kept assuring depositors about the safety of their money parked in Yes Bank, which according to its balance sheet calls itself India's fourth largest private sector lender.

Despite several safety assurances and taking depositors into confidence, one section who bore the maximum brunt was those who invested in Additional Tier 1 (AT1) bonds. These are quasi-equity instruments. They are like equity, but are structured as high interest-bearing bonds without any maturity

date perpetual. They are generally considered to be superior to equity. And the bank with the RBI's approval can very easily say it will not pay back if there is a situation where the bank lost so much money. In fact, if tier 1 capital ratio falls below a certain limit or when a bank needs massive capital infusion, this can be considered. This is exactly what led Yes Bank take such a call. On March 14, dashing hope of investors, Yes Bank issued a release to exchange that its AT1 bonds worth Rs 8,500 crore will be fully and permanently written off to zero.

All retail and institutional AT1 investors were taken aback and in one stroke were barred from having access to their own hard-earned savings.



Laxmi Sirisha, 42, and Naveen Devnani, 43, a couple from Delhi bought 7 AT1 bonds worth Rs 70 lakh. Laxmi, an HR professional recalls, 'We were lured by the relationship manager to invest in AT1 bonds saying it will fetch you more interest rate. Ever since we heard about these bonds being written off, we were left in shock. That was our hard-earned money we have saved over the last 10 years.'

Naveen fears, "My father's retirement corpus is also locked in these bonds. If he gets to know he will have a heart attack."

Madhu Patni, 64, another Yes Bank customer also invested a whopping Rs 70 lakh in AT1 bonds. It was also her husband's and her savings that were invested with an intention to live comfortably, post retirement. Her son Chirag complains, "We purchased these bonds in 2019 after being pestered by

the relationship manager. We were promised about the safety of these bonds but now we understand why we were forced to buy these bonds."

Another bond holder on condition of anonymity says, "My parents invested in these bonds after being persuaded by the relationship manager and we bought 14 bonds worth Rs 1.4 crore. But now we are left with not even a single penny." He sent an email to RBI and Ministry of Finance with little avail.

These are just a few cases. In fact, there are a plethora of stories of depositors being duped by the bank, which lured customers to invest in risky bonds without letting them know other caveats involved. After this news broke out, it sent shock waves among retail and institutional investors. More than 100 retail investors have penned letters to RBI governor and FM Nirmala Sitharaman, highlighting the case.

The letter that Outlook Money has seen says, "We are tax-paying salaried class people, whose life savings are at stake. We request your urgent intervention in safeguarding the interest of retail investors. Yes Bank officials sold us the bond stating that they are safer than fixed deposits and have misguided us. Yes Bank sold these bonds to retailers through incorrect representation of the features credit rating, risk factors and nature of these bonds."

As per ICRA estimates, a total

PRATEEK PANT

Head of Products & Solutions, Sanctum Wealth Management



Mutual funds houses that invested in Yes Bank AT1 Bonds stand to lose

PANKAJ PATHAK

Fund Manager, Fixed Income, Quantum Mutual Fund



Moratorium on Yes Bank has once again raised the vulnerability in credit market

of Rs 93,669 crore of AT1 bonds will be outstanding as on date (Rs 84,574 excluding Yes Bank) of which Rs 39,315 crore will be of private banks (Rs 30.620 crore excluding Yes Bank). Most of these bonds were issued during FY2017 and FY2018 with the first call option after fifth year of issuance and hence a large number bonds are due for call in FY2022 and FY2023.

Dhiraj Relli, MD & CEO, HDFC Securities says, "As per the latest restructuring guidelines announced, Yes Bank AT1 bonds have been written off completely. However, there is no clarity as to whether the holders of these bonds will be allotted any equity in exchange of write-off after a legal challenge. Mutual funds will be cautious in subscribing to instruments (including Tier1 bonds) of weak banks, going forward due to the experience that they have had in Yes Bank."

Prateek Pant, Head of Products & Solutions, Sanctum Wealth Management says; "The draft resolution plan for Yes Bank completely writes off Additional Tier-1 bonds issued by the bank. Hence, mutual fund houses that have invested in Yes Bank AT1 bonds stand to lose the entire amount invested. Many mutual funds have already segregated their portion of portfolio, which is invested in Yes Bank AT1 bonds." Talking about the impact of this he says, "The write-off by mutual funds would impact the NAV to the extent of investment in Yes Bank AT1 bonds."

Fund houses including Nippon

Lessons To Be Learnt

RBI has set a wrong precedent for the perpetual bonds like AT1 as an instrument

If one wants to learn, there are multiple lessons that can be learnt from Yes Bank episode. The first and the foremost is that demutualisation has to be made mandatory for the entire Banking, Financial Services and Insurance (BFSI) sector. Demutualisation is a process where any company/institution operating in BFSI sector, should have separate ownership and management.

What we have seen during Yes Bank crisis was a lack of this. Rana Kapoor was the promoter as well as the CEO, before Ranveet Gill was appointed in his place. Capital market regulator Securities and Exchange Board of India (Sebi) had introduced demutualisation process for Stock Exchanges (SEs) way back in 2003-04, where by the management of SEs was taken away from stock brokers and was given to professionals. Here too, the regulator learnt the hard lesson from the mishap that occurred in 2000-01 at Bombay Stock Exchange (BSE), which was later known as 'Rathi Tapes.'

Wherever management and ownership is vested in single hand, there will be conflict of interest and it will create undue pressure on the board and on executives running the company. In such a scenario, there could be malafide intentions; one can really leverage it, which is what has happened in case of Yes Bank. What happened in case of Karvy and DHFL recently, was also the result of ownership and management lying with the same entity. In BFSI space, it is important that professionals run the business and owners maintain safe distance from running the business.

It is a fact that as banking sector regulator, RBI is aware that ownership and management should be separate in functioning of banks and it has taken several steps in this direction but what is required is speed. It was expected that RBI would act swiftly in case of Yes Bank as issues related to mis-governance were known. Many respectable brokerage houses have flagged off that Yes Bank's accounts are not correct. So to that extent RBI should have acted much early. But, nevertheless, the resolution proposed by the central bank is excellent and that is the reason why the bank is up and running so swiftly. However, the treatment meted out to the AT1 bondholders in the resolution scheme is not right. In this issue, RBI has exploited technical clause. In such a situation, one should first write off the equity and then the AT1 bonds. But by not sticking to that order in the writing off process, we have killed the instrument. No, one would subscribe to it now. RBI has treated AT1 bonds a secondary to equities in Yes Bank case, which is not right. Also, it has set a wrong precedent for the perpetual bonds like AT1 as an instrument. Who will subscribe to the instrument, which carries 200-300 basis points (bps) higher risk compared to other bond market papers.

The Yes Bank fall has set another bad precedent is that if someone mismanages and entity in the banking sector and at the end of the game, if you say, now I cannot run the show, RBI or the government will immediately intervene and bail out the troubled entity. That should not be encouraged. Today it is Yes Bank, tomorrow there can be five more, smaller banks that may turn to RBI for help. This should not be allowed and regulator should take pro-active approach in dealing with such situations. ■

Yagnesh Kansara

India Asset Management, Baroda Asset Management India, UTI Asset Management, Franklin Templeton Asset Management and PGIM India Asset Management have already side pocketed their exposure to Yes Bank.

Rating Agency Fitch says Non-Banking Financial Institutions (NBFI) in India could face a renewed pressure on funding and liquidity following the RBI's takeover of Yes Bank. "The consequences will compound the credit squeeze across the country's financial system, adding to current economic uncertainty," it says adding the recent announcement may bring contagion effect for NBFIs' funding condition. The AT1 bonds write-off will trigger a fresh round of investor risk aversion that will tighten the market access and raises overall funding costs for borrower with wholesale NBFIs likely to remain more vulnerable in this situation.

Pankaj Pathak, Fund Manager, Fixed Income, Quantum Mutual Fund says, "Given that liquidity conditions are likely to remain in surplus mode, returns from overnight and liquid funds and money market fund, which do not take too much credit risk, should also remain muted in line with the repo rate. There will be recommendations to allocate to credit risk strategies given the fall in yields of government bonds and AAA (Triple A) companies. However, as we have been highlighting for some time, we do not yet see the end of credit crisis in the bond markets, despite RBI's actions, and crisis in the NBFCs, telecom and now banking sector are extension of the same crisis."

Pathak further adds, "The recent developments of financial stress in the Vodafone-Idea and the imposition of moratorium on Yes Bank by RBI have once again raised the vulnerability in the credit market." ■

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(With inputs from Himali Patel)



S NAREN

Cruising Through Corona Concern

Be conscious of dynamic asset allocation schemes during troubled times

Both the global and domestic markets are currently reeling under the coronavirus siege. In India, on a year-to-date basis, Nifty has corrected 22.44 per cent and BSE Sensex was down by 21.76 per cent on March 13, 2020. One does not know how long the impact of coronavirus is likely to play out and what will be the exact impact of it on the health of the global economy. As a result, global markets too are likely to be on the edge with investors flocking to safer asset classes.

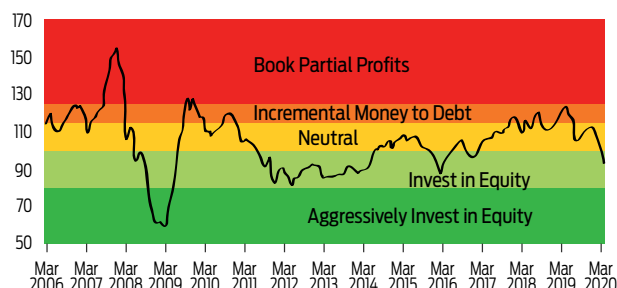
Historically, it has been observed that any global event, due to which a market meltdown has occurred, have proved to be a lucrative investment opportunity (see chart). At such times it is important to have a staggered approach to investing and more importantly be invested in products that can make the most of the ongoing market volatility.

Furthermore, an analysis by ICICI Direct shows that in six out of nine occasions when the markets corrected by more than 10 per cent, all the losses were recouped within the subsequent two months.

Our equity valuation index highlights that equity is available at an attractive valuation with a good margin.

The Valuation, Cycle, Trigger and Sentiments (VCTS) framework, which we at ICICI Prudential Mutual Fund follow, indicates that valuations are attractive and we are in the low to mid phase of business cycle with sentiments around equity as an asset class being negative. Keeping these in view, we recommend adding equity to the investment portfolio at this juncture. A

Equity Valuation Index



Source: ICICI Prudential Factsheet; Equity Valuation Index is calculated by assigning equal weights to Price-to-Earnings (PE), Price-to-Book (PB), G-Sec*PE and Market Cap to GDP ratio. G-Sec - Government Securities. GDP - Gross Domestic Product; Data as of March 13, 2020

research conducted by Gary Brinston, Brian D Singer and Gilbert L Beebower on determinants of portfolio performance found asset allocation is the key to portfolio performance, which accounted for 91.5 per cent. This was followed by security selection, market timing and a few other factors, which contributed only 8.5 per cent. Investors should be conscious of asset allocation.

One of the best approaches to getting this done right is through dynamic asset allocation schemes which are on offer from various fund houses. Here, based on the market valuation, the allocation to equity and debt will keep varying. When the equity valuation is expensive, such a portfolio will increase its allocation to debt and vice versa.

This helps an investor to buy low and sell high.

Debt is an asset class which is often ignored. In the current market, we believe credit funds present an interesting opportunity for investment given their attractive valuation.

Opt for fund houses which follows rigorous process-oriented investment and stay away from troubled debt papers. ■

Date of Observation	Mkt Cap (₹ Lakh Crore)	GDP (₹ Lakh Crore)	Mkt Cap to GDP Ratio	BSE S&P Sensex Level		Return in Next 3 Yrs (CAGR)
				Observation Date	After 3 Yrs	
Dec-2007	72	48	149%	20287	20389	0%
Dec-2008	31	56	56%	9647	15455	17%
Oct-2010	72	72	100%	20032	21034	2%
Aug-2013	57	104	55%	18620	28343	15%
Feb-2016	87	133	65%	23002	35905	16%
Jan-2018	152	163	94%	35965	?	?
Aug-2019	136	195	70%	37018	?	?
12-Mar-2020	126	206	61%	32778	?	?

Data Source: Bloomberg, BSE India, Internal Calculation. Past performance may not be sustained in future.

The author is ED and Chief Investment Officer, ICICI Prudential AMC



AJAY BAGGA

Managing Portfolio During Volatility

Long term gains will help the patient, determined and resolute investor

The spread of the coronavirus pandemic globally has had a severe impact on global stock markets. With over 242,000 infections and 10,000 deaths, the epidemic has drawn comparisons with painful periods such as World War II, the 2008 global financial crisis and the 1918 Spanish flu outbreak.

Most markets have slipped down 20 to 30 per cent plus, with individual stocks lower by anything up to 50 per cent. As an example, on March 19, the entire US airlines industry had seen its combined market worth fall to \$51 billion. This for an industry that had used \$39 billion over the last 5 years for share buybacks.

As always happens in large scale events with increased uncertainty, not only risky assets but even so called safe haven assets like gold have seen a fall in prices. Only cash and that too US dollar cash, seems to be the king for now, as all assets, from stocks to bonds to government securities to currencies to metals and other commodities fell sharply.

As all of us are grappling with an uncertain medical event of the coronavirus, markets have started discounting widespread economic destruction due to this and have fallen hard and fast. The market gave no warning on Feb 19, 2020 before it started its fall, to become the fastest ever bear market in the US. Very few investors had a chance to pull out their funds in time and even now most retail investors have stayed invested. The 2008 experience has shown that, the stocks that fall the most, on average don't recover the fastest. Rather it is the stocks that fell the least that will form the nucleus of the next bull run.

So the first lesson is, don't be afraid that you missed the last helicopter getting you out of a disaster zone. Relook at your portfolio and your emergency fund. Ensure you have a cash flow other than from the stock market. It may be from a job, a business, fixed income investments, a side hustle. Relook at your cash flows and if these look under threat, reduce expenses now. Postpone that big purchase. Holidays anyways none

of us can take for the next few weeks until this virus is contained. After cash flows, look at your cash pool. The cash component in your portfolio can contain cash in hand, banks accounts and deposits that can be broken and liquid mutual funds with overnight redemption facilities. Increase this cash pool so that one years of expenses are covered. One never knows with a huge downturn like this. With that in place you can be clear headed and unsentimental in dealing with your portfolio.

The second action item is to look at your insurance coverage. Is your health insurance up-to-date, is it adequate with top up and a family floater in place. If you are dependent on a health insurance offered by your employer, what is the risk of job loss? It may be better to spend the premium and acquire a personal health insurance in these uncertain times. The same goes for your life insurance cover, don't depend on the group insurance covers offered by your workplace. There will be huge job losses if the economic pain stays for a few months. At that time, being out of a job and losing your insurance coverage both will be a very big risk. Buy personal health and life insurance. Make sure your car and home insurance is also updated.

The third thing to do, is get your entire portfolio down on paper and analyse it. How much of your money is in cash, fixed income, stocks, mutual funds, private equity funds, PMS schemes, AIFs, unlisted stocks, gold, silver, art and other valuables. We saw in 2008, that so called liquid asset classes turned illiquid with funds refusing redemptions and other market events disrupting normalcy. Ensure you have one year of expenses in cash kept aside. That gives a lot of strength of mind in such trying times.

If the broad stock allocation is troubling you, this may be the worst time to reduce your stock allocations. But if your cash buffer is low, sell now and build your cash cushion first. Remember, in the world's largest market, the US, the median number of days between the US S&P 500 index hitting its peak and then hitting its eventual low was 187 days. And the median time from entering a bear market to the market hitting its eventual low was 71 days. The median loss in each bear market was 32.9 per cent.

Of course this time the market could be very different,

Give a relook at your portfolio and your emergency fund



these historical figures are just indications for us to plan. We can't say how much more the markets will fall, for how long the correction will be or how widespread the economic suffering will be.

The kind of selling we have seen is pointing to panic and capitulation with algo based selling exacerbating the falls. Reputed market masters are talking of this being similar to 1920s or 1929 or 1937. Second order impacts of the virus with high levels of leverage and the OPEC Russia oil war are scaring markets into a huge risk off.

Stick to your asset allocation plan. If you are regularly investing X amount every month in the markets, continue that. Maybe you will not get any returns for a year, but when the markets rebound, they will give two years returns in a matter of weeks. Don't miss that.

However, don't try to go bottom fishing. We don't know the depth of the bottom and those shiny objects that seem so attractive, could be falling knives. Avoiding those starts with the humility to know that no one can call the bottom. Don't try that.

Diversification is critical. Keep the safety net. Buy some gold. small coins that can be liquidated easily. Spread your accounts to two three banks. Reassess your risk appetite, which tends to shrink in market downturns.

Diversification is critical. Keep the safety net. Buy some gold

This is also a good time to weed out the losers from your equity portfolio. These times favour quality companies that generate good cash flows and deliver strong margins/ returns on capital. Stay conservative and in quality.

Assume it's a long downturn, assume defaults will happen, deals will dry up. Assess how you will stay solvent and liquid. A big lesson of 2008 was the lack of liquidity that hit all out of the blue.

Stick to what works for you in sum. No one has the one correct solution. Stay invested. Short term pain is certain. Long term gains will accrue to the patient, determined and resolute investor.

The world has gone through many wars, disasters, epidemics and market cycles. This will be a very tough time, but with patience and discipline we will achieve our financial goals. That is what history teaches us. Let's win this. ■

The author is a private investor

The Secret Key To Staying On Track

An early investment will gift you a hassle-free journey in the longer horizon

Rupal Dhonkariya and her husband Yatharth Singh Chauhan are a young couple. While Rupal is working as a manager, audit and assurance in one of the big four consulting firms, Yatharth is the managing editor for content management with a premier automobile portal. They both are in their late 20s. It has indeed been a pleasing experience

to note that millennials are undertaking their financial planning at an early stage of their lives and career.

Rupal and Yatharth both had got in touch with financial advisors around two years ago for chalking out a roadmap for attaining their financial goals, and in the process, the financial freedom. They had lots of doubts regarding the

importance of savings, proper financial planning at an early stage and how it could help them sail through their future short-term as well as long-term goals. Just like the list of questions, they had a list of financial aspirations that was also long enough. However, with no other financial commitment and plenty of time at disposal for crucial goals like retirement planning, all that they required was a prudent financial roadmap. The time in hand also allowed them to undo any of their earlier mistakes and simultaneously take the remedial action in their financial plans.

After a long discussion with the couple, various financial goals were quantified along with a revisit to the current investment strategy. I figured out that while they had been staying financially aware and making some investments since the last two to three years, they were not being guided well with a clear strategy. Further, there was also a need to guide them from the traditional investment products towards tax-efficient instruments, so that the returns could be further optimised. Rupal and Yatharth were planning for a new car in the next three years and further, aiming to



Dedicated SIPs were advised as a first step in financial discipline

Disclaimer

Financial Planning of Rupal Dhonkariya and husband Yatharth Singh Chauhan is based on the “personal opinion and experience” of Vidit Bhura 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.

With Rupal and Yatharth trying to sustain the momentum to fulfill their financial aspirations as desired, here are a few financial lessons one can learn from their financial journey:

● **Link mutual fund investments to financial goals**

This was also the starting point for Rupal and Yatharth. While they had been investing earlier, their savings lacked discipline, with the primary agenda behind such investments being tax savings. However, once they linked their plans and investments to their goals, the entire investing strategy found its purpose. Further, with the emotional connections the couple had towards their financial goals, they found an internal motivation to continue investing in their journeys and achieve the goals.

● **Select schemes as per the financial goals**

Different mutual fund schemes tend to carry different risk-reward trade-offs for the investors. Equity schemes may be volatile over the short term but tend to create wealth over the long term. Similarly, debt schemes may generate reasonable returns but tend to be relatively stable. The investors can align their investments as per their risk appetite and financial goals by maintaining a suitable mix of mutual fund schemes. For example, for long-term goals, one can stay invested in equity schemes, for such schemes have historically created wealth for the investors over the long term. Similarly, for emergency fund corpus, which must stay liquid at all times, one can choose to invest in liquid funds and overnight funds.

● **Instead of watching your portfolio monthly, make an annual portfolio review with your advisor**

A financially aware investor tends to make one common mistake of watching the portfolio movements quite frequently. Even when staying financially aware and updated is good, staying influenced with short-term movements can push one to make emotional decisions. However, just like it is advisable to ignore short-term movements in the portfolio, it is equally important to review the portfolio on a periodic basis, preferably once every year with your financial advisor. Such a review can help the investors gauge the portfolio performance, enabling them to achieve their financial goals in a time-bound manner.

● **It is vital to trust your financial advisor**

Markets can test the patience of the investors with short term volatile movements. Often the investors can get impatient with their mutual fund investments and think of redeeming such investments. This is when the financial advisors can help the investors reinforce their confidence in the markets by guiding them about the market outlook and aligning their investment portfolio suitably. As such, it is profoundly crucial to trust your financial advisor to stay invested in the markets and have a pleasant investing journey.

pursue higher education after five years. Their long-term goals included investing in a house for themselves, as well as planning prudently for their retirement corpus.

The couple also deserved some special appreciation, for they were making a distinction between the necessities and luxuries of life and planning for vacations, out of the annual bonuses. As such, their monthly take-home salary of ₹1 lakh each could be channelised towards savings and investments after making regular expenses. With such cashflows, the financial goals planned by the couple looked practical and achievable. In the course of the discussion, the importance of asset allocation was also explained to Rupal and Yatharth and how they can achieve their short-term and long-term goals with a proper mix of equity and debt instruments. As a first step towards bringing financial discipline into their lives, dedicated SIPs were advised to be registered for different goals.

Further, given the career aspirations to pursue higher education in five years, a need was felt for them not only to start saving towards the goal but also to create a corpus to tide through the days of lower family income during the study period. They were also advised to have adequate life and health insurance covers to mitigate the risk of any future uncertainties.

Starting early in the investment journey helped Rupal and Yatharth plan for their financial goals in a better manner. You must also take your first step right away as it is never too late to start your journey. Happy Investing! 📈



Vidit Bhura

Partner,
JNV Advisors LLP

Moving Towards A \$5 Trillion Economy

ICICI direct.com
Investments at Your Fingertips
Presents

Outlook MONEY CONCLAVE

THE IDEAS XCHANGE



By **Vishav**

The third edition of the Outlook Money Conclave, held on February 27 in Mumbai, turned out to be a huge success with industry leaders across segments coming together on a single platform to inform and educate investors and discuss the future of money. In a fast-evolving world, it's crucial to keep up with the change and the annual event organised by Outlook Money has regularly and actively played a role in helping investors do that. This time around, with the theme "India Moving Towards a \$5 Trillion Economy", 25 speakers participated in the event spread across five expert panels, three power-talk sessions and a keynote address.

From SBI Chief Economist Soumya Kanti Ghosh to Aditya Birla Group Chief Economist Ajit Ranade, from ICICI Securities MD and CEO Vijay Chandok to Bajaj Allianz General Insurance's MD and CEO Tapan Singhel, eminent personalities and industry captains graced the occasion sharing their invaluable thoughts and insights on subject matters varying from the Indian economy to specific sectors like insurance, banking and finance. Former Union Minister Manish Tewari was also present who tore apart the government on its handling of the economy. He said for the sake of 135 crore people in India, the economy just cannot be allowed to fail.

In the opening address, Chandok shared how India was on its path to become a \$5 trillion economy and the only question was not about if that would happen, but when it would happen. He talked about the fundamental pillars, which would support India's growth in years to come.

The keynote address was delivered by SBI's Ghosh who emphasised on the importance of policy making frameworks and said that COVID-19 outbreak has put a lot of uncertainties in the global economy, while India's aspiration to reach the \$5-trillion GDP target by 2024 was faced with serious questions.

In his power-talk session, Ranade discussed the challenges on the road to \$5 trillion considering India's growth in last four years had dropped from 8 per cent to 5 per cent.

But the highlights of the event from an investor's perspective were the five eminent panels, which evoked curiosity and answered many relevant questions. In the Mutual Funds panel, moderated by Kailash Kulkarni, MD & CEO, L&T Mutual Fund, the panelists discussed how the MF industry has changed in the past one year after various tightening of norms by Sebi. This was followed by the Insurance panel in which Tapan Singhel engaged in a riveting conversation with Asish Mehrotra, CEO, Max Bupa Health Insurance, and Sumit Rai, MD and CEO, Edelweiss Tokyo Life Insurance. They discussed how digitisation has transformed the insurance industry and what the regulator should do to reduce digital scams and frauds in the insurance industry.

In the Personal Finance panel, moderated by financial educator and coach Mrin Agarwal, a threadbare discussion was held on the importance of blending robo-advisory vis-a-vis physical advice by financial advisors. The panelists also discussed challenges people face while embracing technology and how to overcome them. The Capital Markets panel was headlined by the idea that if the economy was like a train destined to reach \$5 trillion station, then the market should ideally be its engine. The panel led by Ajay Bagga, Chairman OPC Asset solutions, discussed how the valuation game through equity markets help in achieving the goal of \$5 trillion economy, besides other factors.

The final panel was on Fintech, during which experts from the financial world had an engaging discussion on how the use of blockchain by fintech companies is redefining the sector.

Not A Comforting Message

Government is creating a false binary between socialism and new liberal economic order

By **Rajat Mishra**

For 135 crore people in India, the economy just cannot be allowed to fail," said Manish Tewari, Member of Parliament and former Information and Broadcasting Minister, while speaking at the third edition of Outlook Money Conclave and 18th edition of Outlook Money Awards, held in Mumbai on February 27, 2020.

Tewari was addressing a gathering of stalwarts from the financial world as he pushed the subject of inequality to center stage and said, "If you will step back and look at India in a perspective, we are 17.7 per cent of the world's population. We occupy 2.4 per cent of the world's area. But interestingly, 73 per cent of India's wealth is held by only 1 per cent of its people. And

therefore, you have 101 extremely wealthy and prosperous Indians whose collective wealth is in the range of about Rs. 20 lakh crore. And if you were to sort of juxtaposing that with the entire revenue of the government of India for the last fiscal it was about 27 lakh crore. There are about eight billionaires in the world whose collective wealth is as much as what is held by 400 crore people on planet earth. They are a bunch of companies, about 25 of them, whose individual GDP is more than the GDP of 85 per cent of the countries on planet earth. So, there is inequality."

An understatement to say economy is not doing well

Tewari mounted a scathing attack on the BJP led government saying, "Before the budget, the economic survey was presented, and the economic survey for the year 2020-21 unfortunately, tried to create a false binary between socialism and a new liberal economic order."

He took the gathering through the current state of the economy and said, "If you will look at the Indian economy today, it would be a bit of an understatement to say that the economy is not doing well. Because, if you look at any of the indices, GDP growth at 5 per cent is the lowest in 11 years. Private consumption at 5.8 per cent is the lowest in seven years. Investment growth at 1 per cent is the lowest in 17 years. Manufacturing growth at 2 per cent is the lowest in 15 years. Agricultural credit at 2.8 per cent is the lowest in four years.

Bank credit growth between April 2019 to January 2020 was 7.6 per cent as compared to 14.6 per cent for the corresponding period during the previous year. Inflation at 7.35 per cent during December 2019 was the highest in five years. Unemployment at 6.1 per cent is the highest in 45 years. Exports are down 1.8 per cent as compared to December 2018. If you take December 2019 as the benchmark for which figures are available, imports are down by 8.83 per cent. In the corresponding period, electricity consumption is down by 5 per cent. So, unfortunately, every parameter that you look at does not send out a very comforting message. The fiscal deficit is 14.8 per cent over the budget estimate and this was the figure for January 2020." ■



Manish Tewari, Member of Parliament and former Information and Broadcasting Minister

PANEL DISCUSSION: PERSONAL FINANCE

As Robo Blends With Conventional Advisory

A combination of robo technology and physical advice is what modern investors are looking at



By **Aparajita Gupta**

Disruptive technologies are increasingly taking charge of various aspects of life and the financial world is not an exception. When it comes to financial advising do people still favour one-on-one advisory or are they ready for robo advisory to take charge of things? In the personal finance panel various luminaries from the industry did a threadbare discussion on - “How important is it for financial advisors to offer a blend of physical advice and robo advisory?” - during the third Conclave of Outlook Money held in Mumbai.

Mrin Agarwal, financial educator and coach, who was the moderator of the panel said, over the last decade there has been a

rapid advancement in disruptive technology.

“When we started this millennium, we probably started with a handful of online platforms, but now you have a whole magnitude of platforms available. As a financial educator, I meet a lot of retail investors who tell me that their biggest concern is the access to financial advice. They could be partly to blame because they don’t want to pay for advice. But I think there’s a bigger systemic issue as well, where it does not make economic sense, sometimes for the advisor to provide physical advice. In all this, you now have the new hybrid model, which is a channel where you can do a combination of technology and physical advice. And I think a lot of advisors have been embracing technology,” she said.

So what are the challenges that people face while they embrace technology? Gaurav Mashruwala, financial expert and author said many of the clients are still not used to technology and want a human-touch.

“Yes, they want to see human faces. They want to meet them face-to-face. Third, from a common independent financial advisor perspective, what happens is that the cost of upgrading on a regular basis could be prohibitive,” he said.

But would all problems end with robo advisor and technology at the forefront and human manning it from back end? Mashruwala said people still want human presence at front-end when it comes to interaction. “People also still want to meet us, talk to us, see us and touch and feel and hence both should survive but majority of people would still want to talk to us either on



phone or on video phone, Skype or meet in person.”

But are there any predictive analytical tools available that can be used to advise customers?

Rajesh Cheruvu, CIO, Validus Wealth said, robo advisory has actually put most of the analytics in the hands of investors. But how to make use of these analytics and how to actually do away with emotional biases and take an appropriate decision is an important thing to ponder upon.

“We are at the end trying to empower investors with the technology. We are actually processing more and more towards empowering our advisors, investment advisors and financial advisors to have data or acquire data. And you bring in required focus. There is information overhang today; there are too many data points. What to focus and what not to focus? That’s where I think our technology platform actually provides the required emphasis and a required focus to the advisors,” he said. But how do you think technology can be used to actually acquire clients in metro and non-metro cities, asked Agarwal.

Abhishek Bansal, Chairman, Abans Wealth and Investment Managers, said the global wealth management industry is about \$75 to \$80 trillion. And the Indian wealth management industry is about half a trillion dollars. “US is the frontrunner in the robo advisory. India’s out of half a trillion dollars of total wealth

management only \$65 million is under robo advisory. So, forget about the remote areas only, it is the Indian space, which is up for disruption if you talk about wealth management being done by a robo advisor or digitisation of wealth advisory in India. As per Statista, the Indian industry of wealth advisory on the robo side would grow at the pace of about 30 to 40 per cent CAGR,” he said.

“So, in the span of three years, you would see this number doubling up. So, that is the kind of disruption that you can see in the US or in the global markets. We are expecting a growth of about 20 per cent in these numbers,” Bansal further added.

He explained that to avail robo advisory, it requires a high amount of financial literacy. The investor also has to be financially sound. It is difficult for just a layman as it requires a person to fill up a large amount of forms and a large amount of details about the investors’ preferences.

Asked about robo advisor’s efficiency in dealing with mutual funds or loan advisory, Vivek Agarwal, COO, Scripbox said: “Technology will be used in phases. If you look at the financial products, the investment of customers and financial products itself is quite low. I mean, the mutual fund sector or let’s say direct equity penetration in the country is quite low. What we are trying to do is take these products to the customers who are yet not using them. So in fact, 70 per cent of the customers who come to our platform, our customers who are new there, we can figure that out, because we get to know that their KYC is not done.”

“So we are actually acquiring customers who are very, very new to this and you know, they are just starting to build their personal finance journey. If you come to think of it in the personal finance space,

“

Majority of the people would want to talk to us either on phone or on video phone

Gaurav Mashruwala
Financial Expert and Author

there are probably four or five very important aspects and investment is one. But what kind of debt they are having, what kind of insurance they are having, these are other significant points. What are we trying to do for the customers? We are trying to start his journey with investments. And then, you know, we will obviously look to expand our product portfolio, offer other products as well to the customers,” he added.

So can both the models of physical and robo advisory co-exist?

Mashruwala said, “I firmly believe that whether it’s financial planning or wealth management whatever name you call it, it is not about money. It is completely about the human emotions that arise in the mind of an individual when it comes to money.”

“We believe the philosophy of wealth management or true wealth management is that the first generation should make sure that the second generation is wise enough to handle that wealth. And I suppose if that wisdom is being transferred or that sanity is being transferred, then I suppose the second generation will take the right calls whether to advise, whether to adopt robo advisory or personal advisory or which wealth management firm or what wealth management firm,” Bansal added.

The discussion definitely highlighted that there is space for everybody and there is a huge market that is untapped. It is up to the investors to decide what kind of advisory they want and the kind of cost they want to incur. ■

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The new hybrid model has a combination of technology and physical advice

Mrin Agarwal
Financial Educator and Coach

KEYNOTE ADDRESS

For An Effective Regulatory Mechanism

Emphasising the importance of policy making framework and regulation

By **Dipen Pradhan**

Stating that COVID-19 outbreak has put a lot of uncertainties in the global economy, chief economist of the State Bank of India, Soumya Kanti Ghosh, said that India's aspiration to reach the \$5-trillion Gross Domestic Product (GDP) target by 2025 is faced with serious questions.

"The recent slowdown has put a serious question on such an aspiration. The outbreak of the virus from China has also put a lot of uncertainties in the global economic scenario. We are actually dealing with uncertainties, and economic policymaking is grappling with appreciations about the future," Ghosh said at the Outlook Money Conclave 2020.

Ghosh suggested to reconsider "basic principles" to design an effective and flexible regulatory mechanism capable of dealing with structural changes. He emphasised on the importance of policy making frameworks while making policies. According to him, policymaking frameworks across the globe are either rule-based or discretion-based. "Rule-based framework follows a pre-specified plan, and policymakers pursue the same course of action in all circumstances as written in the textbook. However in a discretion-based framework, policymakers have wide latitude to design the best policy response for the given circumstances. Such flexibility in policymaking allows policymakers to respond to unforeseen scenarios," he said.

Discretion-based policy is of



Soumya Kanti Ghosh, Chief Economist, SBI

two types: constrained discretion and unconstrained discretion. "Constrained discretion could be good and unconstrained discretion could be bad for policy making," he said, while giving highlights of how policy making frameworks in developed countries moved from a system of rule-based policy to a constrained discretionary policymaking after the global crisis in 2008.

According to Ghosh, in India, there was a lot of unconstrained discretion exercised in the policymaking till the opening of the economy in 1991, and afterwards moved towards rule-based regime. He said that fiscal policy making in India continues to be dictated by unconstrained discretion. "We used to do rampant monetisation of fiscal deficit, basically print money whenever we had a deficit. With the opening up of the economy in 1991, India actually moved over more towards rule-based regime. India still follows a rule-based

Fiscal policy making is dictated by unconstrained discretion

policy in specific spheres of monetary policy that could be better served by constrained discussion," he said.

According to Ghosh, in India, the RBI has been following a very rule-based policy of prompt corrective action. "In fact, India still follows a rule based policy in specific monetary policies. That's a matter of debate and research, which may be served better by constrained discussion," he said.

Ghosh asserted that the income tax proposals announced in the budget 2020 is the example of a very good use of constrained discretion turning into unconstrained discretion. However, he is doubtful of the government's expectation to see around 80 per cent shift to the new tax regime.

"In fact, the proposals in the budget are noble, encouraging people to make decisions in their broad self interest, and not about penalising them financially. However, the main research could be just the reverse, because the government is projecting around 80 per cent of the people could shift to the new tax regime, but given the current incentive structure, this number could be much lower, it could be even lower than 10 per cent.

Ghosh emphasised that incentives on peoples' investments is a crucial factor in order to impact household savings in India. Citing studies, he said, "Household savings in India are a function of macro economic as well as qualitative factors. While macroeconomic factors are per capita real income, dependency ratio, inflation, real interest rate, and access to banking; qualitative factors are incentivisation. The incentive to invest is a crucial factor to impact household savings in India." ■

Infuse Investment, Spending Into Economy

Demand, investment and digitisation are laying the foundation for \$5 trillion economy

By **Vishav**

India is firmly on its path to become a \$5 trillion economy and the question is not whether it would happen, but when would it happen, said Vijay Chandok, Managing Director, ICICI Securities. He said his confidence in India's economy was due to three factors which were laying the foundation of a high-growth phase -- demand, investment and massive productivity gains through digitisation.

Delivering the opening address at the third edition of the Outlook Money Conclave held in Mumbai, Chandok said India had grown from a \$300-350 billion economy in early 90s to a \$2.8 trillion economy despite all the problems and crises.

"25 years back, in early 90s, the GDP of India was \$300-350 billion and per capita income was around \$300. As time passed, despite some obstacles, our GDP touched \$1000 billion, or one trillion, by middle 2000s. We joined the trillion dollar club which was a big deal. It took us 12-13 years to get to that," he said.

He added that while we kept cribbing about one or the other problems in the economy, including the big problem of the global financial crisis, by 2010, India was ranked number 11 in terms of GDP.

"Time passed – we had something called policy paralysis in 2012-13 when we said nothing was working, the markets were down, liquidity was bad, economy was floundering, inflation was very high, interest rates were high. In the meantime, India from the number 11 position moved to number seven by 2015-16 despite

all these problems. We overtook four countries – Brazil, Canada, Russia and Italy. Today we have reached number 5 and are a \$2.7-2.8 trillion economy, having overtaken France and Britain in the process over the last four years," Chandok explained.

He said in rupee terms, this economic expansion was even more impressive as from Rs 14 lakh crore, India had now become Rs 200 lakh crore economy, growing 20-23 times in last 25 years, despite all the problems.

"So when we talk about \$5 trillion



Vijay Chandok, MD, ICICI Securities

economy, the question to be asked is not whether it would happen, but whether it would happen by 2024, or 2025 or 2026. One is the massive consumption that is coming through the population of the country which is young. Second is that our country's unique ability to consume a lot of money for creating infrastructure which is able to pay for itself. And third is this wave of digitisation and technology changes that are leading to massive improvements in productivity," he elaborated.

"In a mathematical sense, we are today at around \$2.8 trillion and to get to \$5 trillion by 2024, we need to grow at 12 per cent in nominal terms.

In real terms, it would be around 8 per cent. Today we are at 5 per cent. So clearly, the question is why did we move back to 5 per cent and what needs to be done to move closer to 8-8.5 per cent to get to \$5 trillion sooner than later," Chandok wondered.

He said when we were at seven per cent, two main pillars supporting that rate of growth were the government spending and consumption which were disrupted by three-four big shocks including the movement from non-GST to GST world, the demonetization world, the RERA world and the IBC world.

"Each one of them had great medium-term benefits because you are moving from a random and inefficient way of doing business to a more formal way, which brings sustainability, comfort and greater scale in the course of time. But they were highly disruptive in the short term. And the net impact of each of these is that it shocks the economy in terms of demand. Then during the election time, there was a pull-back from the government on capital expenditure. These support pillars of economy have disappeared, which has brought our growth rate to 5 per cent," he explained.

The ICICI Securities MD said that three things were needed to put this momentum back on track.

"The government has come up with a lot of well-intentioned announcements recently. And the third thing needed is to take feedback on those measures and tweak them accordingly to ensure the intended outcome is achieved. Getting into that virtuous cycle will be more powerful than coming up with another 25 initiatives," he concluded. ■

Using Blockchain In Financial Sector

As technology plays the role in trust building and brings in complete transparency



From left to right: Shantanu Awasthi, Head (Family Office), Karvy Private Wealth; Gaurav Rastogi, CEO, Kuvera; Vijay Kuppa, Co-founder, Oro Wealth; Financial Expert Deepika Asthana; and Sachin Vashishtha, Chief Digital Officer, PaisaBazar

By **Vishav**

Fintech has not only changed the way we bank but also the way we think. With technologies like blockchain causing large scale disruption in the financial sector, fintech companies that adapt smartly to this change will come out on top. During the third Outlook Money Conclave held in Mumbai, experts from the financial world had a riveting discussion on how the use of blockchain by fintech companies is

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**Clients are savvy,
generations are
changing and use of
digital platforms is
increasing**

Shantanu Awasthi
Head (Family Office), Karvy Private
Wealth

redefining the sector.

Clients in the 21st century are savvy, generations are changing and the use of digital platforms is definitely increasing, said Shantanu Awasthi, Head (Family Office), Karvy Private Wealth. He said that from a transaction and information flow perspective, technology is proving to be a big enabler. And even in the background, like in the selection process, technology is being used massively.

Awasthi added that personal relationship and trust building



would remain challenges for some time where inter-personal advisors may still have an edge, especially when it comes to Ultra High Net Worth Investors (UHNIs).

“When it comes to UHNI segment, the relationship becomes important because the information flow is quite distorted and people are not looking for generic solutions. They are probably looking for something specific to their requirements. They are very savvy investors and they already know where to invest and what to do. So relationship value and trust is there.

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Through blockchain, we could digitally convey a trustworthy process

Vijay Kuppa
Co-founder, Oro Wealth

We may be 10 years away from building that trust on only-digital platforms,” he said.

Vijay Kuppa, Co-founder, Oro Wealth, said that it’s a little harder for a digital company to prove its trustworthiness compared to someone who is in front of the investor.

“Digitally, it’s a lot more difficult. So the onus for us, in terms of product selection and the way we want to deliver our message, is a lot more trying to convey to the user that he or she can trust me. Hopefully through blockchain, we will find some way through which we could digitally convey to the user that it is going to be a trustworthy process being here,” he said.

Financial Expert Deepika Asthana, who moderated the panel, said that undoubtedly

blockchain can play a role in trust building “because it’s immutable and apparently unhackable and completely transparent”.

“From that perspective, financial services can really leverage blockchain,” she said.

Gaurav Rastogi, CEO, Kuvera, said that financial services were not about the product but about transparency and trust.

“That is what the business is based on. When we say that a human advisor has built trust over 10 years, it’s basically about repeatability and delivering on the value that you promised. That does not change just because we are a digital platform,” he said.

Rastogi added that some of the things that change for digital platforms is because they have a much larger data set and are built in a way that they store that data and parse that data better.

“We can run a lot better analysis on top of it, which creates those wow moments. For us, machine learning is a big component. We can look at data our users share with us and based on that, create what kind of investors they are. Are they someone who will chase returns or just someone who will just do an SIP,” he said.

Rastogi said that a lot can be done using blockchain in financial services in terms of how people behave, how they invest and what kind of nudges will get the investor better outcomes.

Sachin Vashishtha, Chief Digital Officer, PaisaBazar, said since blockchain is a distributed ledger which records transactions in a very

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For UHNI, personal relationship becomes important

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We can run a lot better analysis, which creates those wow moments

Gaurav Rastogi
CEO, Kuvera

simple language, the technology can be deployed in any industry where there is a transaction happening.

“When it comes to the financial industry, with its risks and complexity, blockchain is highly relevant for us. Banks and other financial institutions are trying to utilise blockchain for betterment of several processes. First they are trying to simplify the KYC process which is one of the major roadblocks why the financial industry is not entirely digital. Second is document verification which is still offline and takes a lot of time. This is where banks are trying to involve technology companies and consulting companies to solve it,” he said.

He added that then there are compliance and record-keeping where companies spend a huge amount of money on quarterly, monthly and yearly audits -- keeping the records and making sure that the data which they have stored in any form is safe and secure.

“We use blockchain to disintegrate that and keep it in a decentralised way so that instead of a monthly, quarterly, yearly auditing, we can do it on a real time basis. It makes the process simpler, faster and very cost-effective,” Vashishtha explained.

The panel concluded that blockchain can open many new doors for the financial sector but there are many challenges that still remain to be overcome. ■

Using Valuation Game For A \$5 Trillion Economy

If the economy is a train, then capital market is the engine, feel experts

By **Yagnesh Kansara**

“One of the main pillars of production is capital. India has been a capital scarce country. Within last 10 years we have seen a good capital flow but in last two years anyone who is in business knows what happened. So, if you don’t

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The goal of \$5 trillion economy is achievable

Devang Mehta
Head Equity Advisory
Centrum Broking

have efficient fundraising platform in the form of capital market then \$5 trillion dream is quite far away,” said Uttam Bagri, Chairman, BSE Brokers’ Forum while speaking at the third edition of Outlook Money Conclave and 18th edition of Outlook Money Awards on February 27, in Mumbai.

The panel on capital market saw



From left to right: Uttam Bagri, chairman, BSE Brokers’ Forum; Ajay Bagga, Chairman, OPC Asset Solutions; Kedar Deshpande, Head, Retail Distribution and Devang Mehta, Head, Equity Advisory Centrum Broking

the presence of some stalwarts and industry leaders from the capital market sector. Besides Bagri the panellists included Devang Mehta, Head-Equity Advisory Centrum Broking, Kedar Deshpande, Head-Retail Distribution, ICICI Securities and Ajay Bagga, Chairman, OPC Asset Solutions, who also moderated the panel discussion. The panel discussed one of the most important themes of our times - "How the valuation game through equity market help in achieving the goal of \$5 trillion economy, besides other factors?"

"The \$5 trillion economy is just a number, if the economy is just like a train, than ideally capital market should be its engine. Second, the engine has to be powerful and swift, as to not causing many accidents, as it happened in 2018 (IL&FS), so the train will reach its destination (goal). As we know, Indians have tendency to reach to wedding reception bit late, so here if we reach our goal two to three years late, it is an opportunity wasted. However, all said and done, I feel that the goal of \$5 trillion economy is achievable," said Devang Mehta.

Kedar Deshpande, while throwing some light on some bold steps taken by the current dispensation, said, "One of the significant reforms that the

Announcement of 25% of corporate borrowings as bonds will give a big fillip

Kedar Deshpande

Head Retail Products, Services & Distribution, ICICI Securities

government has announced which is not necessarily in the stock market but in the listed debt market. One of the big reforms that has been announced in the last budget is that 25 per cent of the incremental borrowings by the large corporate have to be in the form of corporate bonds, that will give the big fillip to the debt markets. This will help in creating liquidity in the bond market. So this will increase the participation in the overall capital market because these market instruments will effectively bring down the cost of borrowing for the good companies, which is a positive step."

While talking about the retail investors' behaviour, which has gone through a change, Mehta said, "The behaviour of retail investors has changed substantially over last one decade or so. Earlier, investors were interested only in one or few stocks to invest that would give them humungous returns, which would help them achieve their life goals. But now they seek to know from their investment advisor, which mutual funds they should invest in. The Biggest change is visible in the behaviour of HNIs, who have curtailed their expectations of returns."

On being asked one of the most pertinent question that market capitalization or GDP, which first attracted a varied view points from the panellists, Mehta said it is basically solving a riddle like what came first chicken or egg. "But still I think market cap will lead to GDP growth," he added.

However, Deshpande had a different viewpoint. He said, "Three variables that drives it one is efficiency of the capital, the construct as the economy grows tomorrow there will be more sectors which less asset is heavy will be more service oriented and the capital efficiency can go up and we have seen that

If LIC gets listed, India's Market Cap (M-Cap) will go up

Uttam Bagri

Chairman, BSE Brokers' Forum

the economies which are more service oriented companies, the market cap comes first."

"It is spurious correlation. Suppose if tomorrow LIC gets be listed, India's market cap will go up. In this scenario, does it change anything from economic point of view? So, once it will be done market cap to GDP ratio will change dramatically. I think ratio does not make sense," said Bagri.

While moderator Ajay Bagga also said he would be pushing market capitalisation so that GDP would go up automatically. And the logic propounded by him is that we are a capital constrained economy. ■

Push market capitalisation for GDP to go up automatically

Ajay Bagga

Chairman, OPC Asset Solutions

PANEL DISCUSSION: **INSURANCE**

Digitisation Can Improve Insurance Penetration

Using AI cuts the claim process time from two hours to 10 minutes



From left to right: Tapan Singhel, MD & CEO, Bajaj Allianz General Insurance; Sumit Rai MD & CEO, Edelweiss Tokio Life; Ashish Mehrotra, CEO & Managing Director at Max Bupa Health Insurance

By **Anagh Pal**

Digitisation is a tool to find a solution to what needs to be done. The insurance industry faces a peculiar issue. Even as the industry is paying claims through its nose, the common man on the street feels that insurance companies do not pay any claims and only collect money.

Digitisation can help solve this problem. Insurance is about collecting money from many and paying it to a few who have faced some untoward incident for which they were covered by

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Nowadays, one is not required to struggle for days to collect information and data

Tapan Singhel

MD & CEO, Bajaj Allianz General Insurance

a contract. So, when someone launches a claim, the onus is on the industry to scrutinize it well so that they do not end up paying to any fraudster. “Hence, as soon as you file a claim, the insurance

company treats you as a fraudster till you are proven honest by the questioning mechanism. The insurer asks several questions to the insured. This may lead many to think that insurance companies do not want to pay claims,” said Tapan Singhel, MD and CEO, Bajaj Allianz General Insurance.

However, digitisation has a solution for the stated problem. “Nowadays, mobile phones have cameras with a good network, hence the physical presence of a surveyor is not needed. One is not required to struggle for days to collect information and data. Instead, you can get the customer to click pictures, upload, verify the claim and then transfer the money,” he said.

“The problem statement has to be solved and digitisation is one of the tools to solve it. If you are doing that well, you are going in the right direction,” he added.

According to Ashish Mehrotra, CEO, Max Bupa Health Insurance, the customer journey for any financial service product can be broken into five parts. It is the same with insurance. The way we attract the customers, connect to them, fulfill their needs and deepen the relationship.

Over the last five years, the advent of mobile phones and internet connection in India has significantly leapfrogged us to a different stage than the rest of the world. “If you keep



the customer in the very center of what you do and you plot these five stages of the customer lifecycle, then you are solving the real problem. We are now breaking the insurance product into simple consumables, what we call as sachets. On the claim side, we have used Artificial Intelligence (AI). It is helping us to get to 99.6 per cent accuracy on almost 40 per cent of our claims which is dramatically superior that we could have done ourselves. We have a 2 per cent higher error rate than what AI and Machine Learning is helping us to achieve,” said Mehrotra.

In the end, simplifying and solving the real customer issues will eventually bring efficiency into the insurance business, resulting in a cost-cutting scenario. The AI use on claims cuts the claim process time from an hour or two hours to about 10 minutes. Information can be analysed correctly and approved on time irrespective of the claim.

“Using technology and digitisation makes it far easier and unchallenging to identify fraud incidents. Hence the very first conversation must be of a quality where the customer has immense trust in the agent. The trust gets transferred to the company, where the customer’s needs will be fulfilled seamlessly.



The insurance is not a bought product but a sold product, hence limitations will be there

Sumit Rai

MD & CEO, Edelweiss Tokio Life Insurance



First conversation must be of a quality where the customer has immense trust in the agent

Ashish Mehrotra

CEO, Max Bupa Health Insurance

It needs to create a platform that simplifies the contract by using the current digital tools like AI and ensures that the right advice is given to the right customer”, said Mehrotra.

Digitisation can help improve the quality of the conversation between the distributor and the customer.

“Here is where digitisation will truly make a difference. However, since insurance is not a bought product but a sold product, some limitations will be there. The true power of digitisation is for distributors to know customers better, serve them diligently and build a long-lasting career for themselves and the business,” said Sumit Rai, MD, and CEO, Edelweiss Tokio Life Insurance.

The insurance penetration in India is about 3 to 4 per cent which is very low as compared to some other countries. Digitisation can play a role in increasing this penetration. The dissemination of information has become more accessible and that empowers the end consumer and the intermediaries on phones, tablets or laptops.

Digitisation is helping insurance companies to understand the needs, which has resulted in products like toffee insurance, bite-sized insurance. While insurance will predominantly remain an

advisory product when it is broken to the micro needs of the customer, it will help leapfrog the penetration and adoption of insurance.

Mehrotra said, “When we work with Fintech companies and banks, one can create smaller, simpler products which help customers to experience insurance and then they come back to us. Sometimes we have a bunch of products we offer with a bank like a simple Rs 1,000 product linked to account opening or insurance products worth Rs 50 or Rs 100 meant for a communicable disease or event. Out of people who buy that product, 20 to 30 per cent are coming back to buy a full-fledged product. This ensures that once a customer experiences the value of an insurance, the adoption rate will grow up considerably.”

The combined growth in health insurance is 15 per cent on a YTD basis. Also, this adoption is coming more in Tier II and Tier III cities.

According to Singhel, we should relook at data protection norms as our data is already compromised and we are not aware of it. Even if a customer has given a consent, the insurer should not use the data for any other purpose. Data protection is about ethics and it should also progress to the digital world. But there should be KYC norms for the insurance industry as well.

One needs to understand that insurtech is not about creating a product but creating a full ecosystem. This will help solve a customer’s problem, help drive the penetration and customer appreciation of the core product. ■



PANEL DISCUSSION: **MUTUAL FUND**

Gaining An Institutional Face

Changes in the mutual fund industry over last one year as Sebi tightens norms

By **Himali Patel**

Outlook Money's Conclave 2020 saw many of the interesting and engaging discussions throughout the day. One of which was - How has the Mutual Fund industry changed in the past one year after various tightening of norms by Sebi?"

Moderating the session was Kailash Kulkarni, MD & CEO, L&T Mutual Fund. Before throwing the questions to the other MF experts, he made a point by emphasising that mutual fund industry today is nearly Rs 28 lakh crore and the equity component has also grown primarily in the last five to seven

years substantially. According to him, the Securities and Exchange Board of India (Sebi) has been tightening the norms not only from one last year but has been doing it over the last few years.

Joining the discussion with him was A Balasubramanian, MD & CEO, Aditya Birla Sun Life AMC, who was asked how the industry has grown over last one year and how the MF industry is going ahead? To which he explained MF industry is now gaining the institutional face.

Earlier, it used to be small industry in both size and prominence in the eyes of the investor. However, despite all the regulations the growth will remain

permanent. "Most of the time I believe that regulation is the outcome of what we have been doing and is not the outcome of what Sebi thinks and therefore the regulation comes," said Balasubramanian. That said, panelist expert NS Venkatesh, CEO, Amfi India was asked by the moderator about What are the steps and changes undertaken by the regulator to make system far more transparent and easier to enter?

As per Venkatesh, the regulators have two roles to play - one is to ensure the safety of the market, a place where the investors are coming in, which has to be completely safe and secure for them. And the second one is that the regulator has to look after



From left to right: Shreenivas Kunte, Director, CFA Institute; A Balasubramanian, MD & CEO, Aditya Birla Sun Life AMC; Navneet Munot, CIO, SBI Mutual Fund; N. S. Venkatesh, CEO, Amfi; Swarup Mohanty, CEO, Mirae Asset India; Kailash Kulkarni, MD & CEO, L&T Mutual Fund



the development of the markets. So, both have to be balanced out. And if one takes a look at the regulations that have come in the last one year then most of it is related to investor protection.

"It was done by giving the benefit to investors, let's say by the Total Expense Ratio (TER) reduction and the investor protection by means of various tightening measures, which has happened during credit crisis. We also made disclosure norms by mutual fund houses much more transparent. It is in favour of investors to give a feeling that every investor is committed to an industry which is well regulated and the regulator is at top of the things. So, this gives the confidence to the investors to come and invest in mutual funds," explained Venkatesh.

Panelist Navneet Munot, CIO of SBI Mutual Fund being asked on how he saw equity side substantially growing over the next three to five years, explains that the last few years have seen a lot of boom and bust of the industry and yet it has growth from strength to strength.

"As India moves towards much greater financial inclusion and the \$5 trillion economy, our objective is to become the catalyst for ensuring that fruits of the growth are distributed to a much larger part of the population," said Munot. He also emphasised that the direct and indirect participation through the mutual fund industry as well as indirect participation of the pension funds will reap the benefits of economies of scale. Also, with all of that pool of money one can take advantage of the skillset one builds in the MF industry.

Currently, one of the important role regulator plays is to professionalise the entire distribution system. This is to clearly differentiate between the plain vanilla distributors or basic



We need to ensure fruits of growth are distributed to a larger part of the population

Navneet Munot

Chief Information Officer, SBI Mutual Fund

advisors and the professionals who take financial planning as a tool to explain investors.

Shreenivas Kunte, Director, CFA Institute, who plays a large role in providing one of the top-notch highest level of professional education, was asked about the challenging role of the institute in the years to come.

"The CFA institute dates back to at least 60 years. So, I mean we have done lot of work globally. What Sebi is doing stands perfectly well with our position. We work very closely with Sebi and other regulators around the world, which means we are going in the right direction," said Kunte, adding, "We are also doing a lot of educational programming. We are trying to influence people with a right technique and try to think about the conceptual frameworks and innovative ideas."

Panelist, Swarup Mohanty, CEO, Mirae Asset India, shares his approach in addressing investors on how the current norms help balance out the growth of Asset Under Management (AUM) and the clients.

"AMC is getting money from at least the double the kind of landscape that we used to get

just five years ago and that's the huge shout-out to the regulator for formalising. The MF industry has seen a huge transformation - from merely selling products to a more advisory role, which is indeed a stepping stone.

Further, in the last three years 60-70 per cent transactions are happening in the digital form. The number of new customers that are being added by some of the digital players within two-three years of existence is far higher than the large distributors, which were adding over 10 to 15 years of existence," said Mohanty.

He believes that India is about the people and finally it is about how many people invest that's what matters. If one looks at the last 10 years, given the distribution pace, the money that came to AMCs has become double.

That said, Munot also addressed the audience with an insight on coronavirus outbreak and how various important factors would influence the markets in coming times. Given all the measures taken by various countries, the virus should get contained and over the period of a month or two the situation should start normalising believed Munot.

"I think we are going to have a faster recovery in the second half. Because of whatever the policy makers will do. But from the longer-term perspective India, what we have seen over the last few years, can be the structural long-term beneficiary of the coronavirus," explained Munot.

The session ended on a note by Kunte urging distributors and advisors not only to build asset allocation of the client but also to improve and create a good trust with the client to build the industry on a positive factor. "What is most important is emotional stability - first for yourself and then for your clients," he concluded. ■



The regulator plays the role of professionalising the entire distribution system

Converting Demographic Advantage Into Innovation

The per capita burden on an average taxpayer will be relatively low despite higher deficits

By **Anagh Pal**

The economic context is not very happy because of the slowdown. In the last four financial years, 2016-17, 2017-18, 2018-19 and 2019-20, as per the government's data, the growth of the economy has gone down from 8 to 7 to 6 to 5 per cent.

The GDP growth depends on your investment, as what you invest today becomes the GDP growth tomorrow. An important indicator of how much the economy is investing is the investment to GDP ratio. That ratio in 2008-09 to 2010-11 was about 36 per cent of GDP. That number has been 28 per cent of the GDP in the last four years. With 28 per cent investment to GDP ratio, you cannot get high growth unless the investment becomes super productive or super-efficient. But, in order to get a higher growth, you need higher investments.

The third important fact is exports. In this case, the reference would be to manufacturing or merchandise exports and not export of software or tourism revenue. Exports are important because they are highly aligned with manufacturing activity in the country. Since there is a high degree of correlation it is not possible that industrial and manufacturing growth goes up and there is no growth in exports. In the last six years, exports have grown at an average growth rate of zero per cent which used to grow at 20 per cent.

From the scenario we can conclude that this is a slowdown. However, now the question that comes to



Ajit Ranade, President and Chief Economist, Aditya Birla Group

surface is whether this is a structural or a cyclical slowdown. A cyclical slowdown means that the business cycle is slow. It goes up as cycles go up and down based on the movement of the business cycle. However, a structural slowdown means that the structure of the economy is flawed, so it will not grow at higher rates. The economy will continue to grow at 5 per cent unless we make some big decisions. I feel there are elements of both in the current slowdown. However, let us not just blame the global economy for our slowdown.

There are many reasons for the same. Some of the reasons will be very difficult to overcome. The data shows that the economy has not been robust and yet we are saying we will double the economy from today to \$5

Economy will grow at 5 per cent unless we make big mistakes

trillion in the next three to four years, which is a very tall ambition.

Now I will talk about what gives us the confidence to talk about such a possibility in the medium to long term. The main driving force for that is demography. The population of India is growing at a rate of 1.7 per cent per year. However, India's workforce or people in the age group of 18 to 60, which is a subset of the total population is growing at 2.5 per cent. This demographic phenomenon is very robust and impervious. People who are going to be working, earning, saving, investing, consuming and paying taxes are being driven by demography. Just as the tax net is widening, the financial savings of the country are deepening. The kind of transformation we are having in financial inclusion is tremendous.

If we have a higher deficit today, it means that the government is spending more than it is taking in through tax revenues. In such a situation the government borrows money, but it needs to be paid back. Hence, today's deficit is nothing but tomorrow's taxes. Since the demography is such that the population of young people is stable and rising over the next two decades, and the median age is going to remain at 27 to 28, the per capita burden on an average taxpayer in India is going to be relatively low despite higher deficits. So while the demographic advantage is in favour of India, the question is what are the policy obstacles and what needs to be done to convert this demographic advantage into innovation, increased productivity, and higher GDP growth. ■



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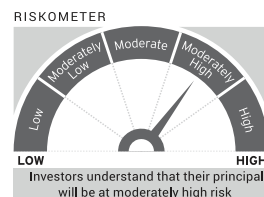
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