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India has beaten China in growth rate, but early start of reforms
has given the latter a gargantuan size and a definitive edge
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China celebrated 40 years of economic reforms in December. Its success story is no secret to the world and the comparison never stops. In fact, just recently India was seen overtaking China in GDP growth. Even though this development made headlines, India has a long way to go to be in line with the dragon nation. A lot remains to be achieved and followed for India but it is surely on the right path. In our cover story this issue, we have elaborated on China’s growth trajectory and where India stands. Do read this piece to understand better how the elephant is chasing the dragon.

The other interesting reads featured in this issue include the state of the current government as far as maintaining the fiscal deficit target and growth in gross domestic product (GDP) are concerned, the further infusion of capital into the banking system stating its impact on public sector undertaking (PSU) banks and the key risks facing the Indian stock markets at the moment.

Among sectors, the topics that caught our fancy and have also been covered are the Department of Industrial Policy and Promotion’s (DIPP’s) policy for e-commerce players, the state of the telecom companies in India with Reliance Jio out on the prowl, the private equity market in the year 2018 and what can be expected this year, the bright prospects of the Indian steel industry vis-à-vis its global peers and the airline industry of the country, with Indigo giving tough competition to its contemporaries.

In the Beyond Basics section, we have spoken about how the Securities and Exchange Board of India (SEBI) has allowed mutual fund houses to segregate their holdings in stressed securities by enabling the segregation of liquid and illiquid assets. Read on to understand its impact on mutual fund investors.

Finally, read an article on the importance of making and keeping resolutions to maintain your finances and investment portfolios in the Beyond Learning section.
In the previous fortnight, the US stock markets and crude oil prices bounced back on the back of easing tensions between US and China, which are engaged in trade negotiations over imposition of tariffs on the latter by the US.

Q3 earnings results of India Inc have been in line with expectations. However, company managements are cautious about Q4 results as they believe elections in India in the coming months could impact earnings.

In the coming fortnight, Nifty Futures has good support at the 10,745 level. If it breaks this level, then market participants must avoid fresh buying. However, they can look at fresh buying if Nifty Futures crosses the 10,845 level.

Market participants should, however, look out for important global and domestic events. These include the upcoming Fed meet in the US where rates are likely to be left unchanged; the monetary policy meet of the RBI, wherein the apex bank may cut key interest rates; the remaining earnings results of India Inc and most importantly, Union Budget 2019, which seems to be more like a statement of accounts as it is being held before the crucial elections in India. All these developments could determine the course of the markets in the coming days.
CHASING THE DRAGON

India has beaten China in growth rate, but early start of reforms has given the latter a gargantuan size and a definitive edge.
 circa 1979 was momentous for the world, the events that unfolded that year are still shaping the socio-political and economic milieu. Year 1979, described as zero year by Julian Assange, saw the Islamic revolution in Iran, Soviets invading Afghanistan, firmly putting the Communist rule there, which later gave birth to terrorist organizations like Al Qaeda. Margaret Thatcher was voted to power in the UK in 1979, which was followed by the election of Ronald Reagan as the US President owing to which the western world saw capitalism firmly take root.

That year, Deng Xiaoping set China on a different kind of Long March as he announced economic reforms in the Communist party plenary in December ’78. Forty years on, free markets have made China the second-largest economy in the world with $13.6 trillion of GDP, a phenomenal growth of 230 times over its 1978 GDP of $214 billion.

Year 1979 too holds significance for the Indian economy as it registered its lowest GDP of -5.20% in the fourth quarter of that year. While China has been growing near 10%, India’s GDP growth rate averaged 6.13% between 1951 and 2017, reaching an all-time high of 11.40% in the first quarter of 2010. Interestingly, India and China were at a similar level in the 80s with the latter ahead in several indicators such as highways. India only opened up the economy in 1991, 13 years after China.

While the domestic newspaper headlines take solace in India overtaking China in GDP growth - it is estimated to grow at 7.4% in fiscal 2018 against 6.5% for China; this is just a fraction of what China adds to its GDP every year. China’s economy is over four times bigger than India’s GDP, which is set to touch $2.6 trillion this year.

For India to add as much to its GDP as China this year, it needs to grow by 40%.

Even if China’s growth stops and India grows at 10% every year, it will still take 2034 to catch up. Also, the most optimistic economic models see India remaining the second largest economy by 2050. Interestingly, China’s growth in 2018 was the slowest in 28 years; it still added $1.4 trillion, or the size of the Australian economy.

**THE DIFERENCE**

China’s per-capita GDP has surged five times between 2006 and 2018, thanks to its entry into the World Trade Organization in 2001, while India’s has grown two-and-a-half times during the period.

According to the WEF’s Inclusive Development Index 2018, in India, 6 out of 10 Indians still live on less than $3.20 per day against just 12% of the population in China.

China exported $2.16 trillion worth of goods in 2017, compared with India’s $299.3 billion. China generated 6.14 trillion units of electricity in 2016 against 1.15 trillion units for India. China produced 24.4 million passenger cars and 3.6 million commercial vehicles in 2016, compared with India’s 3.6 million passenger cars and 8.1 lakh commercial vehicles.

China spent about 2.1% of its GDP on R&D, while it is languishing at 0.6% for several decades in India.

The IMF pegs India’s per capita gross domestic product (GDP) this year at $2,135, which is around a fifth of China’s per-capita GDP of around $10,000. Difficult to imagine but the gap in per capita GDP in the two economies was less than $40 in 1990.

**THE TEN-YEAR SURGE**

Interestingly, ten years ago, India was seen as a potential superpower with its IT and outsourcing prowess showing a great promise, while China was exporting mainly labour-intensive items made in sweatshops. India was the formidable exporter of computer software, ahead of China. It was also one of the big exporters of generic drugs, small cars and petroleum products.

Today, having moved up the value chain, China is no longer just the workshop of the world. Its top companies are not the polluting industries, but hi-tech champions, such as Huawei in 5G telecom, BYD in batteries and Alibaba in e-commerce. China is also the world’s largest producer of solar cells, aluminium and steel.

India, meanwhile, has not produced a single global company in the last decade. Its promising leads in such as Micromax are languishing while Xiaomi, a company formed in the year 2011, commands several billions of dollars in market valuation. The Indian pharma sector too is being fast outpaced by Chinese API makers.
Tata Consultancy Services, Infosys and Wipro notched revenue of $18.55 billion, $10.91 billion and $8.81 billion, respectively in 2017. In contrast, China’s Huawei, JD.com, Alibaba Group, and Tencent Holdings recorded revenues of $78.51 billion, $39.16 billion, $23.52 billion and $22.87 billion, respectively.

With technological innovations, new business models and different ways of fundraising turning game changers, India needs a lot more to catch up with China. The country is planning a colony on the moon with the US while an Indian spacecraft carrying humans is still years away. China is ahead in terms of artificial intelligence, self-driving cars, and robotics, and in many cases such as 5G it is ahead of the US too.

SILVER LINING

However, the gap is narrowing in some sectors. Internet penetration in China stood at 772 million at the end of 2017, while in India it was 462 million. India is close to China in terms of its land transportation network. At the end of 2017, India’s railway network was just 3,000 km short of China’s 1,24,000 km.

However, China’s railway network includes 22,000 km of tracks for high-speed trains, while India has none. In fact, when it comes to the road network, India is higher at 4.7 million km versus China’s 4.6 million km at the end of 2015.

WHAT AILS?

China’s success is mainly due to its investment in health and education, gender equality and equitable distribution of wealth, even through non-democratic routes. On the other hand, India’s low literacy rates and poor health outcomes explain a big part of the disparity in development between the two countries. Its focus on education, skills and infrastructure has helped China make everything, from toys to cars, mobiles to high-speed railways.

Manufacturing, which is critical for absorbing the growing pool of labour, remains under-tapped in India. It is also lopsided. While it doesn’t make high-quality gadgets, India is a big player in car manufacturing, and is an export hub for global payers and offers significant cost advantage in launching satellites.

China has encouraged FDI by multinationals looking to set up export-oriented manufacturing operations. In contrast, India followed an import-substitution policy and relied on domestic resource mobilization and domestic firms for a long time.

Foreign investments in China amounted to $1.723 trillion in 2015, against $297.1 billion for India. China launched its economic transformation by using abundant labour at low wage rate to establish manufacturing for export industries while India focused on service export sector.

Indian policymakers have reformed end-product markets before addressing issues like high cost of capital, inadequate and insufficiently skilled labour force, and land acquisition.

DEMOGRAPHY

Both countries have ridden the wave of a low dependency ratio (the ratio of the population younger than 18 years of age or older than 65 years of age to the total population). China’s dependency ratio fell from 68% in 1980 to 36% by 2010. India’s dependency ratio has fallen by 8% each decade since 1990 and by 2030, India could increase its workforce by 200 million.

However, about 100 million new jobs must be created in the manufacturing and service sectors by 2030 to accommodate the growing workforce, according to the Standard Chartered report. To achieve this, it says, the government needs to close a widening skills gap, raise the participation of women in the workforce, and ease labour laws.

India needs to train 10 million people annually. Currently, however, it has the capacity to train just 4.5 million, it says.

ONE BELT, ONE ROAD

China is slowing but it still may have an ace up its sleeve. It is rolling out One Belt, One Road initiative to create a trade route from China to Europe. The huge project, covering about 65% of the world’s population, about one-third of the world’s GDP and about a quarter of all the goods and services, may put China firmly in the saddle.

POLICIES

India has been inconsistent in following through with economic reforms, with one government reversing the policies of earlier ones. The country has a long way to go before catching up with China in a host of crucial economic and social indexes - like per capita GDP, human development, and entrepreneurship.

India wants more investment-driven growth, especially focused on upgrading its infrastructure, but is still struggling to jump-start investments. The last investment surge was curtailed by the global financial crisis and later by wrong policies including letting inflation...
slip out of hands. The delay in fixing the banking sector troubles has contributed to the growth slowdown.

THE FUTURE

Going ahead, China’s economy is expected to slow while India’s growth would remain robust over the medium term. Continued investment in infrastructure in China is helping to support overall investment, though this stimulus is unsustainable in the longer term.

India, on the other hand, is seeing increased investment rates, thanks to public infrastructure development and private investment. Private consumption is also increasing, thanks in part to higher wages and improved benefits for public sector employees. India is likely to become the world’s second-largest economy by 2030, next only to China and overtaking the US, according to Standard Chartered’s long-term forecast released this month. However, China is set to overtake US the biggest economy in 2020, according to the report.

“India will likely be the main mover, with its trend growth accelerating to 7.8% by the 2020s partly due to ongoing reforms, including the introduction of GST and the Insolvency Bankruptcy Code (IBC),” says the report.
The government may find it difficult to meet its fiscal deficit target this year given the populist measures it may announce to appease voters.
The government’s fiscal deficit for April-November period has already reached 115% of the overall target set for the fiscal year 2019. While the government has reiterated its commitment to the FY19 fiscal deficit target, markets are increasingly getting anxious over the fiscal deficit numbers. The markets - stock, bond and currency - have started pricing in weaker fiscal numbers over the past few weeks.

For the April-November period, the government’s expenditure largely remained in line, but subdued tax receipts bloated the deficit. Net tax receipts in the April-November period were ₹7.32 trillion against a full-year target of ₹14.8 trillion.

In the same period, total spending stood at ₹16.1 trillion against the full-year target of ₹24.4 trillion. In other words, receipts realized were 49.4% of the budgeted target, while expenditure undertaken was 66% of the budgeted target.

Fiscal deficit is budgeted at ₹6.24 trillion or 3.3% of the gross domestic product (GDP) for FY19. Instead, for April-November, the fiscal deficit stood at ₹7.16 trillion or 114.8% of the target.

At the outset, it is not unusual for fiscal deficit to overshoot within a particular year. For instance the fiscal deficit was at 112% in the same period last fiscal. This is because the government typically frontloads the expenditure, while the revenue flows only towards the end of the fiscal year.

For FY18, citing the impact of demonetisation and the introduction of the Goods and Services Tax (GST), the government overshot the budget estimates. As against budgeted 3.2% of the GDP, the actual fiscal deficit came at around 3.5% of the GDP. So, given the position as on November, will the government miss the target again in FY19?

**EXPENDITURE CONTROL**

The answer lies in the various components of fiscal deficit. Fiscal deficit is the difference between the total expenditure and the total revenue of the government. This gap is filled by government borrowings. Clearly, fiscal deficit can be controlled if either the revenue improves or the expenditure is cut.

So far till November, the government incurred an expenditure of ₹16.1 trillion, which is 66.06% of the budget estimates for the fiscal. A rationalization of expenditure especially in the last quarter of FY19 is given if the government wants to meet its FY19 fiscal deficit target of 3.3% of the GDP.

But, ahead of the general elections, which are slated around May ’19, it is feared that the government may fall for some pre-election populism. There are already reports that the government may announce some relief package for farmers or a national farm loan waiver to relieve them from the stress in the agriculture sector.

A universal basic income scheme and tax exemptions to attract voter support are also speculated by the media. Any populism without adequate fiscal space may not only hurt the fiscal consolidation plan for FY19, but also for future years.

**THE STORY SO FAR**

It is important to highlight that the National Democratic Alliance (NDA) government since coming to power in 2014 has remained mostly fiscally prudent. Fiscal deficit stood at 4.4% in FY14. Helped by lower international oil prices, the fiscal deficit was subsequently brought down to 4.1% in FY15 and to 3.9% in FY16, and later to 3.5% in FY17. The fiscal deficit for FY18 was revised to 3.5%. For FY19, it has been pegged at 3.3%.

Further, the government has committed itself to lowering the central government’s Debt-to-GDP ratio to 40% from the current 70% by FY23. The Debt-to-GDP ratio is an important indicator of the government’s ability to meet debt obligation, which, in turn, impacts the cost of borrowing. India’s Debt-to-GDP is one of the highest amongst emerging market peers. Consequently, the government plans to bring the fiscal deficit to 3% of the GDP by the end of 2020-21.

**PAIN POINTS AND CUSHION**

While expenditure discipline has been maintained by the government, revenue shortfall has been sharp. This is mainly on the back of lower GST realization and poor disinvestment trends so far.

For instance, GST collections per month in the fiscal year averaged ₹968 billion against a target of ₹1.06 trillion. Also, disinvestments in PSUs have been lower at around ₹340 billion as against a target of ₹800 billion for the fiscal. Meeting both the targets will be crucial for the
On the positive side, it is highly speculated that the Reserve Bank of India (RBI) is quite likely to approve an interim dividend of ₹200 billion to ₹300 billion to the government in March this year, over and above the ₹500 billion that was given in August last year. This is likely to provide some cushion.

SCENARIOS

Following are few possible scenarios around the fiscal deficit.

Option 1: As mentioned earlier, the government undertakes expenditure cuts. According to one analysis, the government will have to undertake expenditure cuts to the tune of ₹500 billion to ₹600 billion in Q4FY19 to meet the fiscal deficit target.

Option 2: The government undertakes a smaller expenditure cut, but simultaneously works towards increasing revenue by asking the RBI and other PSUs to fetch more dividends. The government may also defer subsidy payouts to the next fiscal. It may further resort to window dressing like doing off balance sheet spending.

Option 3: While the other two options may allow the government to stick to its target, option 3 may allow the government to announce measures for farmers and let the fiscal deficit breach its target. This option would not be completely unanticipated. The government could cite one of the exit clauses of the fiscal responsibility and budget management (FRBM) rules, which allows a relaxation of 0.5% during times of stress in the economy.

IN A NUTSHELL

Controlling fiscal deficit by trimming government spending has a bearing on economic growth. But spending without adequate means can equally be disastrous for the economy in the long run. Higher fiscal deficit means higher government borrowing, which crowds-out private sector while keeping interest rates higher in the system. This has a bearing on all citizens.

The government is likely to come out with a pre-election Union Budget on 1st February. In such interim budgets, the government refrains from making any big bang announcements. But, any populism without any fiscal space may dent the government’s image of being fiscally prudent and the markets may react negatively.

BEYOND WORDS

ZERO-SUM GAME

Zero-sum game is ideally when the gains made by winners in an economic transaction equal the losses suffered by the losers. It is identified as a special case in game theory.

Most economic transactions are in some sense positive-sum games. But in popular discussion of economic issues, there are often examples of a mistaken zero-sum mentality, such as “profit comes at the expense of wages”, “higher productivity means fewer jobs”, and “imports mean fewer jobs here”.

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GOVERNMENT FINANCES

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The incumbent government is tirelessly striving towards achieving over 7% GDP growth, reflecting India’s economic strength.

There’s good news for the country on the economic growth front. The GDP growth for this fiscal (FY19) is likely to breach the 7%-mark, which can be considered as creditable in the prevailing circumstances, both domestically and globally.

As per the Central Statistics Office (CSO), which released the first advance estimates of the country’s Gross Domestic Product (GDP) for FY19, economic growth is likely to be at 7.2% for this fiscal.

An important point that needs highlighting here is that the CSO’s GDP growth estimate suggests that the Indian economy is likely to accelerate to a three-year high of 7.2% this fiscal. Last fiscal (FY18), India’s GDP growth was below 7% at 6.7%; a GDP growth at 7.2% this year would, therefore, be very heartening indeed.

It is, however, important to mention here that the CSO, which usually releases the estimates about a month prior to the Union Budget has released it earlier this year and without the Q3 (third quarter) GDP data. The Union Budget is scheduled to be presented on 1st February this

The incumbent government is tirelessly striving towards achieving over 7% GDP growth, reflecting India’s economic strength.
year and since the third quarter data is not available, the CSO has gone ahead and announced its estimate without taking into account the Q3 GDP data.

The CSO has taken into account other indicators such as government expenditure and factory output to project this fiscal’s growth. Here, it must be pointed out that the CSO will release the third quarter (October-December ‘18) GDP data and the second advance estimates on 28th February and also revise its annual growth projection after incorporating the third quarter (Q3 FY19) data, if required.

A credit worthy feature of India’s economic story so far this fiscal (FY19) is that India still continues to remain the world’s fastest-growing large economy, besting its giant neighbour China. An interesting sidelight here is that both the countries are Asian as well as neighbours sharing a long border.

Here it must be noted that India enjoys this top position despite having had to confront some adverse issues beyond its control such as increase in oil prices a few months ago (there has been a price-softening since then) and turbulence in the global trade arena caused to a large extent by United States’ President Donald Trump’s belligerence on certain trade-related issues.

Different institutions have estimated India’s GDP growth for FY19 at over 7%. According to them, it should be in the range of 7.2% to 7.4%. ICRA Ratings has estimated India’s growth to be at 7.2%, while two other institutions - Crisil and CARE Ratings - are forecasting a slightly higher growth figure at 7.4%.

Just some time ago, Moody’s also projected a 7.2% growth rate for India, having trimmed it from 7.3% to 7.2% for this fiscal (FY19) and to 7.4% for the next fiscal (FY20) from 7.5%. The Philippines-based Asian Development Bank (ADB) also forecasts the country’s economic growth for FY19 at 7.3% while projecting a 7.6% growth rate for the next fiscal (FY20).

That most of the forecasts this close to the financial year ending in March '19 is around the 7.2% to 7.4%-mark indicates that India’s economy has functioned generally smoothly this year and that GDP growth this fiscal will be reasonably healthy.

And if this figure of 7.2% growth is achieved, it would have been achieved despite burgeoning trade tensions in the world and high oil prices till just a few weeks ago.

While the CSO’s forecast is heartening and points towards an acceleration to a three-year high growth of 7.2% this fiscal and that too after clocking a growth well below 7% last fiscal (at 6.7%), one must not, however, get carried away.

This is because the quarterly data indicates a deceleration in growth or to put it in other words, the data signals a sequential slowdown in the country’s economy.

In the April-June quarter (Q1) of this fiscal, the economic growth was a robust 8.2% but it declined to 7.1% in the July-September quarter (Q2). The CSO’s full-year estimate released seems to suggest that economic growth in the April-September half (H1 FY19) may be at around 7.75% while in H2 FY19 or the October ’18 to March ’19 half, the economy may grow at a much lower rate of 6.75%.

Though there has been a reasonably good monsoon this year and the agriculture sector is expected to fare well, demand in rural areas is unlikely to be high. The agriculture sector is likely to expand this fiscal (FY19) as compared to the last fiscal (FY18), which is a positive but what could prove a dampener is that rural demand is unlikely to be high.

The centre had just a few months ago announced an increase in minimum support prices (MSPs) for farmers for their produce but even this is not likely to bolster rural demand. Low prices to farmers for their products and a slow growth in rural wages are likely to play spoilsport as far as rural demand is concerned.

What may help push up rural demand is the likelihood of election-related spending by the government which, again, is most likely to be strongly targeted at the rural populace, which constitutes the majority of voters in the country.

The national election (to the Lok Sabha) may be held in April or May this year. Oil prices, which had risen in the past are now softening and this too could be a contributory factor to helping push up rural demand a little as disposable income in the hands of the rural population could increase slightly as a consequence.

However, all said and done rural demand is not expected to increase significantly in the near-term.

India’s industrial sector is expected to fare well this fiscal as compared to the last fiscal. This is an encouraging factor for the economy. As per the statistics office’s first advance estimates, some sectors, which have performed well and registered an over 7% growth are manufacturing, construction, electricity, gas, water supply and other utility services. Also, segments such as public administration, defence and other
services have also breached the 7% growth mark.

The CSO has also given the growth estimate figures for a few other sectors as well. The government organization has pegged the estimated growth rate for trade, hotels, transport, communication and services related to broadcasting sector at 6.9% while pegging it at 6.8% for the ‘financial, real estate and professional services’ sector.

The CSO estimates growth rate to be at 3.8% for the ‘agriculture, forestry and fishing’ sector and at 0.8% for the ‘mining and quarrying’ sector.

CSO states that the country’s per capita income in real terms (at 2011-12 prices) this fiscal is likely to increase to ₹91,921 as against ₹86,668 last fiscal (2017-18).

It further said that the country’s GDP at current prices in 2018-19 is likely to grow to ₹188.41 lakh crore, up 12.3% as against the 2017-18 figure of ₹167.73 lakh crore.

While the government can be reasonably happy with its economic performance, it has another feather in its cap with respect to inflation, which is presently well under control. Consumer Price Index (CPI)-based inflation slipped to an 18-month low of 2.19% in December ‘18 while Wholesale Price Index (WPI)-based inflation also declined to an eight-month low of 3.80%.

A key reason for the rise in inflation is the softening in the prices of food and fuel. What needs highlighting here is that this is the second consecutive month that WPI inflation has eased while headline retail inflation has eased for the third consecutive month.

The CPI-based inflation of 2.19% is below the Reserve Bank of India’s (RBI’s) projected inflation rate of 2.7% to 3.2% for the October-March period of 2018-19 (H2 FY19).

Food inflation based on the consumer food price index stood in the negative at -2.51% in December ’18 as against -2.61% in the previous month. At the wholesale level, deflation in food articles stood at 0.07% in December ’18 as against 3.31% in November.

Fuel and light inflation rate at the retail level moderated to 4.54% in December ’18 as against a high of 7.39% in the previous month. This decline has been attributed to a slide in the prices of petrol and diesel.

In the important fuel and power basket as well, a decline in the prices was registered. With regard to wholesale inflation, the rate for the fuel and power basket slid sharply by almost half to 8.38% in December last year from 16.28% in November ’18. For liquefied petroleum gas (LPG), inflation stood at 6.87% while for petrol and diesel, the rates were 1.57% and 8.61%, respectively, during December last year.

With inflation on the downward trend, financial sector experts are of the opinion that India’s apex bank, the RBI could affect a rate cut as early as next month. On 7th February, it is scheduled to come out with its sixth bi-monthly monetary policy statement for FY19 and a rate cut announcement could be in the offing around that time.

Presently, the repo rate stands at 6.50% while the reverse repo rate stands at 6.25%. Repo rate is the rate at which the central bank of a country lends money to commercial banks within the country. Reverse repo rate is the rate at which the central bank of a country borrows money from commercial banks within the country.

A rate cut in February could spur growth and is something India Inc is looking forward to. In an election year, the government would be closely monitoring economic figures and a good GDP growth rate will certainly boost the incumbent government’s case (in this instance, the Narendra Modi-led government at the Centre).

In any case, things have considerably smoothened out for the economy - the turbulence caused by demonetisation has now totally dissipated while the newly-introduced Goods and Services Tax (GST) regime is also beginning to work out as the tax collections over the last few months indicate. The teething problems associated with the launch of the GST regime have now been eliminated to a large extent.

How the national election pans out remains to be seen - it is still four to five months away - but present indications are that Modi could return to power albeit with a reduced majority.

Even if this is the case and he has to rely on political allies to govern the country, it could still be a positive for the country’s economy as one can be assured of continuity of policies, which is very crucial for attracting investments, especially foreign investments, which are crucial to steer India’s economy ahead.

For the economy to rapidly progress, a stable government and continuity in policies is a must and if the incumbent government, which does not have many negatives against it, at least on the economic front during its tenure so far can return to power, most stakeholders in the country can be expected to be pleaseD.
Beyond Thinking

With more capital available, it is highly likely that a few PSBs will exit the PCA framework in the coming months.
he government has decided to pump in an additional ₹41,000 crore as capital into public sector banks (PSBs) in fiscal year 2019 as against the earlier budgeted amount of ₹65,000 crore. This additional capital comes at an opportune time for the banking sector as bad loans have peaked and a decent credit growth of around 15% is witnessed in the system.

To recap, in October ’17, the government announced a massive ₹2.11 trillion (trn) recapitalization package for PSBs to be implemented over FY18 and FY19. Around ₹1.2 trn was infused in FY18 while the balance of ₹0.9 trn was supposed to be infused this fiscal year.

Of the ₹0.9 trn, the government had budgeted ₹650 billion (bn) as direct capital and the remaining ₹250 bn was to come from market borrowings by banks. Now, the government has increased its capital infusion outlay to ₹1.06 trn from ₹650 bn earlier. For the record, in the first nine months of FY19, the government has already infused around ₹230 bn and the balance of ₹830 bn will be injected over the next three months.

**RECAPITALIZATION NEEDS**

Banks need capital for expansion as well as for regulatory provisions as mandated by the RBI. Typically, for a bank, capital can come from market sources or from shareholders.

With high stress levels, raising capital through markets at the right valuations is tough. The Indian banking system is currently saddled with high levels of stressed assets (both non-performing assets (NPAs) and restructured assets) to the tune of over ₹10 trn. This is around 12.5% of overall system loans. Share of PSBs of the entire stress in the system is more than 80%. Banks need to set aside capital once an account is classified as NPA. Bad loans are those, which have not been repaid for a period of 90 days or more.

The statutory requirement mandates the government to hold not less than 51% stake in PSBs. So, it is imperative for the government, which is the largest shareholder in PSBs, to recapitalize PSBs.

To set the context, the Indian banking sector consist of 21 PSBs, 26 private sector banks, 43 foreign banks and 56 regional rural banks. PSBs roughly have a 70% share of the assets of the banking industry. It is important to support PSBs as they play a major role in providing credit to the economy, which, in turn, could translate into higher growth.

To this effect, the PSBs allot shares on a preferential basis to the government, which increase government’s stake in the bank. Till the time PSBs are on their own for their capital needs, the government will have to bear the burden of frequently capitalizing PSBs.

It has cited helping banks to meet RBI’s regulatory capital norms as a reason for providing additional capital at this point of time.

**PCA LOGIC**

But, why has the government increased the outlay now? At this juncture, the government and the RBI are at loggerheads on many fronts. One such issue is the RBI’s prompt corrective action (PCA) framework.

As per the PCA framework, banks are forced to cut down lending if they breach key regulatory trigger points like capital-to-risk weighted assets ratio, net non-performing assets (NPAs) and return on assets. The RBI mandates banks to keep a 9% capital to risk-weighted asset ratio and 6% net NPA threshold.

11 out of 21 PSBs were put under the PCA framework by the RBI between February ’14 and January ’18 as these banks breached the trigger points.

While the RBI’s intention behind the PCA framework is to avoid any systemic risk, the government in recent months has strongly felt that these regulations are onerous, even by global standards, and certain sectors of the economy needed credit and liquidity support.

Now, by providing additional capital, the government is signalling peace with the RBI and wants to comply with the RBI’s mandate.

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**Infusion Of Capital By The Government**

<table>
<thead>
<tr>
<th>Particulars</th>
<th>₹ In Billion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proposed Capital To Be Infused In FY19</td>
<td>650</td>
</tr>
<tr>
<td>Capital Already Infused/Raised</td>
<td>230</td>
</tr>
<tr>
<td>Approval For Further Capital Infusion</td>
<td>410</td>
</tr>
<tr>
<td>Capital To Be Infused In FY19</td>
<td>830</td>
</tr>
<tr>
<td>Total Capital To Be Infused In FY19</td>
<td>1,060</td>
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</tbody>
</table>

Source: RBI
BENEFITS

With more capital available, it is expected that a few PSBs will exit the PCA framework in a few months time. Some analysts feel capital infusion will enable Allahabad Bank, Bank of India, Corporation Bank and Bank of Maharashtra to come out of the PCA framework.

Also, there are other large PSBs, which are currently not under the PCA framework, but are breeching the RBI’s risk thresholds for the past couple of quarters. Additional capital will help these non-PCA banks, which are critically close to the prescribed risk thresholds. Banking analysts include banks like Punjab National Bank and Union Bank of India in this list.

AID IN CONSOLIDATION

The government has also cited that additional capital will aid banks that are likely to participate in the consolidation process in the future. To recollect, the government is planning for a three-way merger between - Bank of Baroda, Dena Bank and Vijaya Bank. Typically in a merger, the balance sheet of the acquiring bank gets bloated with NPA's acquired from the banks getting merged. Additional capital will help manage such a situation.

IN A NUTSHELL

With general elections just a few months away, it is important for the ruling government to show some economic activity. Even as overall credit growth is decent at 15%, lending to industry, and micro, small and medium enterprises is much lower. With the fresh infusion of capital, the government hopes that lending to these sectors will grow.

The government has a comprehensive 4R’s approach to strengthen PSBs and foster a culture of clean and responsible banking.

R-Recognition of stress assets
R-Resolution of stress assets by way of Insolvency and Bankruptcy Code and debarment of wilful defaulters
R-Recapitalisation of PSBs by way of mobilization of capital, and
R-Reforms which will address the root cause of poor asset quality of PSBs and commit them to clean lending. Reforms also include roll out of next-generation banking services by leveraging benefits of technology and formalisation of the economy.

The government’s recapitalization plan for PSBs without any reforms becomes a burden on tax payers. With reforms and consolidation underway, PSBs need to be self reliant for capital. This will be a permanent fix to the recapitalization issue of public sector banks.
There is a wave of confidence that things will pan out well in the coming months despite key risks. Being one of the fastest economies in the world, India continues to provide some of the best and exciting investment opportunities in the stock market. The country’s stock market has already overtaken Germany’s bourses to become the seventh largest in the world with a market cap of $2.1 trillion.
The growth reflects India’s positive returns posted in the calendar year 2018. The stock market resurgence came even on the Indian economy feeling the full force of trade wars, rate hikes in the US as well as price swings in oil prices.

Calendar year 2019 is not expected to be any different. There is no doubt that it will be an eventful and exciting year in the equity markets. The S&P BSE Sensex was up by 7% last year as the Nifty 50 rallied by 4%. Experts and observers expect the equity markets to remain volatile in 2019, as was the case in 2018.

The performance of the country’s stock market would in one way or another be affected by events both internally as well as on the global scene.

Some of the key factors poised to affect the performance of various securities in the equity markets include the upcoming general elections in India; rate hikes globally as well as oil prices and economic slowdown around the world.

**GENERAL ELECTIONS**

The uncertainty that comes with general elections all over the world is sure to rock the Indian stock market. Ahead of the May ’19 election, the markets are sure to experience a sense of volatility and uncertainty in the short term.

The general elections should have a knee-jerk effect on the markets as noise could remain at extremely high levels. In the previous elections, the markets rallied as the UPA and NDA came together to form a coalition government. What is worrisome now is the emerging trend post the state elections where the Congress party won with a majority in several states including Rajasthan and Madhya Pradesh (MP).

This would have a bearing on foreign money inflows. In 2018, foreign portfolio investors pulled out over ₹83,000 crores from the Indian markets after investing a whopping ₹2 lakh crore in the previous year. The outflows came, as most investors remained wary of economic recovery and growth ahead of the general elections. The possibility of a coalition government at the centre would raise investor apprehensions.

Most investors are waiting to see whether the elections will result in the formation of a stable government capable of creating a friendly investing environment.

The impact of rising interest rates as well as global slowdowns are some of the headwinds that raise concerns as to whether a coalition government would be well suited to handle such headwinds.

**CRUDE OIL PRICES**

Crude prices will in one way or another affect the performance of the equity markets in 2019 as was the case last year. Oil prices oscillated in the $50/barrel to $85/barrel range last year. With the market, shifting from oversupply to a balanced one, initial indication is that oil prices would plummet to the $42/barrel range.

Low oil prices are always welcome. However, the trigger behind any decline in price is one of the things worth watching out for, given its potential impact on the stock markets. A decrease in oil prices because of low global growth is the last thing that equity investors would want to see in 2019 as the same will have a lasting impact on the stock markets.

Oil accounts for about 70% of India’s import basket. A surge in oil prices would thus have a negative impact on the economy especially on the depreciating rupee as the dollar continues to strengthen in response to the recent hikes. Higher oil prices could push the country’s oil import bill, impacting interest rate direction as well as government balance sheets.

In the past, the Nifty had moved opposite to crude prices, i.e., when prices were dropping, the index traded higher. In the recent past, things appear to have changed as the index has continued to move in tandem with oil prices. For that reason, it has become clear that many factors including interest rates hikes will have a say in the performance of the stock markets.

**INTEREST RATE**

The threat of rising interest rates became evident in the fourth quarter of last year as the US moved to raise interest rates for the third time. Major indices as well as stocks in the US came tumbling down as investors shifted their capital to other high-yield investments. The S&P 500 ended 2018 lower by 6.2%, breaking a two-year winning streak in response to the rate hikes by the US Federal Reserve.

For that reason, it became clear that higher interest rates are not always good for the stock markets even though they underscore economic growth. While India does not depend a great deal on external trade like other emerging economies, it could still find itself dragged into the mess on the US Federal Reserve hiking interest rates in 2019.

Interest rate hikes in the US in 2019 would signal the strengthening of the US economy. Such a scenario is the last thing that India’s economy and
other emerging economies need. Interest rate hikes could force investors to switch their attention to better performing securities something that will result in outflow of investments from the stock markets.

Capital outflows from the Indian stock market could significantly affect share prices resulting in a decline in returns. Besides, higher interest rates would result in the strengthening of the dollar, something that could increase the cost of doing business, which would affect profit margins. Such a scenario would significantly affect their performance given the impact it would have on forex conversions.

GLOBAL ECONOMIC SLOWDOWN

A global economic slowdown will have a ripple effect on the Indian economy whose effects could be felt by the stock market. Such a slowdown would significantly affect corporate earnings growth, something that will see most counters plunging to the red.

While the India economy appears delinked from the global economy given its low dependence on external trade, it will still feel the effects of global economic slowdown by having a negative impact on equity returns.

A brutal trade war pitting two of the biggest economies in the world against each other promises to have a significant impact on the equity markets around the world. The trade war between the US and China is already having a ripple effect as multinationals continue to cry foul given the retrogressive tariffs that have come into being as a result.

In response to the trade war, the International Monetary Fund (IMF) has already warned that global growth could falter by 30 bps to 40 bps. The IMF expects global growth in 2019 to come in at 3.7% a downgrade from an initial estimate of 3.9%.

The Indian economy is poised to grow by 7.4% in 2019 according to credit rating agency Moody’s. India’s apex bank, the Reserve Bank of India (RBI) expects the economy to grow by 7.4%. Higher oil prices and rupee depreciation are some of the headwinds that will continue to put pressure on demand and inflation.

A RISK TO EARNINGS GROWTH

Calendar year 2018 was not the best year; when it came to returns in the equity markets. A lacklustre corporate earnings growth resulted in a massive outflow as foreign investors made a net withdrawal of about ₹83,146 crore from the Indian markets.

For that reason, the risk of low earnings is one of the headwinds that will affect the performance of the equity markets in 2019. For FY18, the Nifty50 averaged earnings per share of ₹445, which is expected to increase to ₹556 in the current financial year.

For starters, concerns that it could take much longer for corporate earnings to bounce back could result in increased outflows in capital investments in the country’s stock markets. Lower earnings growth as against expectations would make current market valuations look even more expensive.

IN A NUTSHELL

Amidst the wave of uncertainty as to how the stock markets are likely to perform in 2019, there is a wave of confidence that things will pan out well especially in the fourth quarter. Political stability in response to the general elections as well as stability on interest rates and return of growth in the global economy are some of the developments that should have a positive impact on India’s equity markets.

Any form of stability should fuel confidence in the stock markets, pushing share prices higher. However, for the index to clock a landmark reading, corporate earnings will have to tick higher, aided by increase in mutual fund inflows in the countryY.

BEYOND WORDS

PARETO EFFICIENCY

Pareto efficiency is a state of allocation of resources from which it is impossible to reallocate so as to make any one individual or preference criterion better off without making at least one individual or preference criterion worse off. “Pareto efficiency” is considered as a minimal notion of efficiency that does not necessarily result in a socially desirable distribution of resources: it makes no statement about equality, or the overall well-being of a society. It is simply a statement of impossibility of improving one variable without harming other variables in the subject of multi-objective optimization. It is named after Vilfredo Pareto (1843–1923), an Italian economist and engineer. In reality, change often produces losers as well as winners.
US BEFORE THEM

The DIPP clarification on e-commerce in India aims to offer a level-playing field to online and offline retailers.
The Department of Industrial Policy and Promotion (DIPP) has reaffirmed its policy, restricting market place companies from using foreign direct investment (FDI) flow for retail. The changed policy relates to e-commerce market place, which was originally issued on 29th Mar '16.

The government has amended the FDI Policy in e-commerce in order to ensure a level-playing field between offline and online sectors. With the latest announcement e-commerce biggies like Amazon and Flipkart are trying to get a hang of it and figure out its likely impact on businesses.

E-commerce companies, which once controlled the inventory and price of goods, no longer hold the reins due to the new set of regulations announced by the government on 26th Dec '18. This means that the industry is headed for a big change right from business models to even a reduction in FDI.

Companies will be relooking at their structures and business models. Control on inventory, time commitment to deliver and customer experience are three areas where there could be a short-term impact, industry experts said.

DIPP has clarified that market place operators cannot participate in pricing or inventory models through any permissible structures like B2B Wholesale and Group company structures, thus removing all ambiguities in the interpretation of the policy.

Additional clarification, restricting exclusive product deals, including private labels among others, further reaffirms the policy’s intent to disallow FDI in inventory-based e-commerce.

As per Rakesh Biyani, Joint MD, Future Retail, said, “With these clarifications, market places, will only act as facilitators of the transaction and not be responsible for the actual product. All product sales facilitated by market place will be a contract between the customer and the seller. The policy has been further clarified to ensure that market place operators do not participate in the pricing of products. If some of the discounts in the past have been funded by market places, then the discounts will stop. All discounts offered by sellers will be available to consumers.”

The new rule will bring the much-needed level-playing field for sellers. With complete restriction on marketplace to participate directly in retailing, the policy will give Indian companies the opportunity to build a stronger retail model, Biyani said.

The policy has further mandated filing of statements by marketplaces, to affirm compliance of rules. The norms have been more stringent for the e-commerce players but it may not have much impact on companies as they will find ways to continue with the existing practices, said Anil Kumar, CEO, Redseer Consulting.

The regulation further reaffirms the policy’s intent to not allow any FDI in inventory based e-commerce. For private equity - investors and venture capitalist firms, this would stop the flow of FDI in e-commerce business. “While a home grown e-tailer owned by an Indian conglomerate is allowed to hold inventory, besides selling its own products, a foreign investor backed e-tailer isn’t. This new set of rules ties the hand of VC and PE investors, which, in turn, would have an adverse impact on FDI,” opined Rehan Yar Khan, Founder and Managing Director, Orios Venture Partners.

However, there is also a fear that large e-tailers will still find a way to circumvent even these regulations, and continue to work in the same fashion. The policy has further mandated filing of compliance certificate with a report of statutory auditor to the Reserve Bank of India (RBI) confirming compliance by 30th September every year.

Kumar Rajagopalan, Chief Executive Officer of Retailers Association of India, said, “Indian companies will get the opportunity similar to what the Chinese companies received initially, which led to the building of Chinese giants like Alibaba, Tencent and JD. The government should appoint agencies to ensure compliance of norms and probe any flouting of norms and initiate action against such market places.”

However, experts feel e-commerce players will act according to the latest norms but will find some loopholes to tweak the norms.

Anil Talreja, Partner, Deloitte, said, “These norms were there earlier also but e-commerce players continued with high level of discounts. The impact may be on companies with inventories. Now, they will have to look for other platforms to sell their products as the players are not allowed to sell it on their own platform. But surely they will figure out some way to do it.”
The government should appoint agencies to ensure compliance of norms and probe any flouting of norms and initiate action against such marketplaces, said Rajagopalan of Retailers Association of India.

The government had allowed 100% retail in marketplaces through the automatic route in 2016, but had also mandated that discounting, a major draw for online shoppers, had to stop. Also, no single seller could account for more than 25% of the sales on a marketplace.

Until then, WS Retail was one of the biggest sellers on Flipkart while Amazon had Cloudtail. Discounting continued unabated and the likes of Flipkart and Amazon propped up a number of sellers to reduce dependence on WS Retail and Cloudtail. Amazon also formed a joint venture (JV) with Patni Group, called Appario Retail.

These announcements provide some respite to brick-and-mortar traders. Further, the policy says that any entity, which is an investee of a marketplace cannot sell on that particular marketplace, which means Amazon’s JVs are likely to be barred from selling on Amazon.

Industry experts said that fresh clarifications are largely intended to plug the gaps, which were exploited by e-commerce companies. With so much money at stake, e-commerce companies will also voice their concerns. They can certainly try to find a way around these regulations, but some of the mandates, especially around seller structure, may create some short-term impact.

It is not immediately clear if other sectors, such as grocery, food delivery and ride hailing, also come under the ambit of the e-commerce policy. Industry executives believe grocery delivery start-ups such as BigBasket, Grofers and Amazon Retail, its food retail arm, need not be rattled as the government has already allowed 100% FDI in retail trading of food products manufactured or delivered in the country.

Domestic ratings agency ICRA in a recent report said that there is a compelling case to revisit the “restrictive” retail foreign direct investment (FDI) policy as India has not been able to get sizeable investments despite opportunities.

Citing examples of other emerging geographies to allay concerns, the agency said that organized and unorganized retail can co-exist.

The multi-brand retail sector remains most restrictive to FDI, with a cap of 51% ownership and guidelines relating to mandatory investments in back-end infrastructure and local sourcing norms, the rating agency said. “There is a compelling case for the government to revisit its FDI policy. The investment requirements of the sector are sizeable,” its Vice President and Co-Head for Corporate Sector Ratings, Kinjal Shah said.

According to data released by the Department of Industrial Policy and Promotion, India received $1.4 billion in FDI in the retail sector between 2000 and 2018, which is only 0.36% of the overall FDI inflows, it said. The agency said a population of over 1.3 billion with favourable demographics and a rising middle class present a big opportunity for foreign retailers, who have actually evinced interest.

ICRA said, “Restrictive nature of the retail FDI policy” has curtailed the foreign retailers’ operations.

Shah said there remains on-ground opposition for multi-brand retail from local traders, who fear risk of being thwarted by the deep pockets and increased competition from foreign players.

Pitching in for relaxation in inter-segmental restrictions for multi-brand retail, Shah also said India needs to up the caps on foreign ownership in the segment.

There is limited domestic capital being invested in the sector and FDI flows can bridge capital deficit and remove the supply chain inefficiencies, Shah added.

Citing global experiences to drive home the point of co-existence between organized and unorganized retail players, it said China saw a spike in employment and number of traders since liberalizing on foreign ownership in retail in 1992 and in Indonesia, traditional retailers are holding on to food selling.

It can be noted that relaxations in foreign ownership is an extremely sensitive subject politically in the country, which faces opposition from large segments.

Post amendment, an e-commerce entity providing a marketplace will not exercise ownership or control over the inventory or goods purported to be sold. Such an ownership or control over the inventory will render the business into an inventory-based model. The inventory of a vendor will be deemed to be controlled by e-commerce marketplace entity if over 25% of purchase is from the marketplace entity or its group companies.

There is no clarity regarding calculation of 25%, as in whether it is required to be calculated as at the end of the financial year or a regular check on the purchase is required.
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Ringing the Death Knell?

Reliance Jio is giving tough competition to its peers who are struggling to stay afloat given mounting debt and intense rivalry.
India’s telecom industry has undergone a tectonic shift in the past three years. With the entry of Reliance Jio, the business situation in the industry has been disrupted both in positive and negative sense. It is positive for consumers given the fall in Internet and voice call costs.

But it has been negative for the already existing players such as Bharti Airtel and Vodafone. This can be understood by looking at how Jio’s entry in India’s telecom industry has had a deep impact on the operations of the existing players: Here is a detailed explanation:

THE INDUSTRY

With 512.26 million Internet subscribers, as of June ‘18, India ranks as the world’s second-largest market in terms of total Internet users.

India is also the world’s second largest telecommunications market with 1,191.40 million subscribers, as of September ’18. In 2017, India surpassed the US to become the second-largest market in terms of number of app downloads. Over the next five years, the rise in mobile-phone penetration and decline in data costs will add 500 million new Internet users in India, creating opportunities for new businesses.

With daily increasing subscriber base, there have been a lot of investments and developments in the sector. The industry has attracted Foreign Direct Investments (FDIs) worth US $31.75 billion during the period from April ‘00 to June ‘18, according to the data released by the Department of Industrial Policy and Promotion (DIPP).

Some of the other major initiatives taken by the government are as follows:

• The government has envisaged National Telecom Policy 2018, which is expected to attract investments worth US $100 billion in the sector by 2022.

• The Department of Information Technology intends to set up over 1 million Internet-enabled common service centres across India as per the National e-Governance Plan.

• FDI cap in the telecom sector has been increased to 100% from 74%; out of 100%, 49% will be done through the automatic route and the rest will be done through the Foreign Investment Promotion Board (FIPB) route.

• FDI of up to 100% is permitted for infrastructure providers offering dark fibre, electronic mail and voice mail.

• Over 75% increase in Internet coverage – from 251 million users to 446 million.

There has been a five-fold jump in FDI inflows in telecom sector – from US $1.3 billion in 2015-16 to US $6.1 billion in 2017-18 (up to December ’17). According to various estimates, the number of Internet subscribers in the country is expected to double by 2021 to 829 million and overall IP traffic is expected to grow four-fold at a compound annual growth rate (CAGR) of 30% by 2021.

The Indian Mobile Value-Added Services (MVAS) industry is expected to grow at a CAGR of 18.3% during the forecast period of 2015–2020 and reach US $23.8 billion by 2020.

These facts demonstrate that the industry is on the rise as there is growing acceptance and adoption of Internet-enabled smartphones. But all is not rosy and favourable when it comes to operations of players.

It has been observed that with the sole exception of Reliance Jio, most telecom players are facing daunting challenges in terms of debt and stiff competition. They are struggling to maintain their market share and be in the top league.

THE CHANGED LANDSCAPE

The entry of Reliance Jio has brought about a considerable change in the industry. The impact of Jio’s entry has been immediate in the industry. Just two years since its launch, Jio has 252 million subscribers. It plans to grab half of the revenue market share by the year 2021.

At present, India has 1,166 million mobile phone users. Vodafone Idea is leading the market with 422 million subscribers followed by Bharti Airtel, which has 329 million subscribers.

What is interesting to note here is that Jio’s entry coincided with several players either quitting the industry by selling off or merging with the existing players. Quite a few players like Telenor and Tata Tele services
sold off their businesses, while others like Anil Ambani-led Reliance Communications had a huge pile-up of debt in their balance sheets.

In two years, the number of players in the industry shrank from nine to just four, including state-owned Bharat Sanchar Nigam Ltd (BSNL). There was a merger of Vodafone and Idea Cellular too.

Another development one must note is that both players - Vodafone and Bharti Airtel - have been posting losses. Bharti Airtel posted losses in the March ’18 quarter for the first time in the past 15 years. In the September ’18 quarter, the company’s net profit fell by 65.36% to ₹118.8 crore on year-on-year (y-o-y) comparison.

Post its merger with Idea Cellular, Vodafone India reported ₹4,973 crore losses for the September ’18 quarter on a y-o-y comparison. This poor show is largely due to intense competition by Reliance Jio.

Jio has the financial muscle given the backing of Reliance Industries, which is used in different ways. It pre-empted subscribers’ behavior well before its competitors. It has been observed that most of its peers kept their 3G services high for top-end customers and never gave proper attention to the increasing desire among rural subscribers for data. Jio took advantage of this.

Jio launched new economical plans specifically targeting rural customers without ignoring its urban subscribers, disrupting the markets. Key industry people point out that Jio is already carrying out trials on the introduction of 5G services. They say Jio may commercially launch its 5G services ahead of its industry peers.

Analysts further point out that Jio is in a sweet spot as existing players are dealing with huge debt, intense competition and merger issues arising out of different work culture. They say Reliance Jio’s plan is to not just make it big in the telecom industry but its ambitions go beyond the industry.

In October last year, Mukesh Ambani bought controlling stake in cable television companies Hathway and Den Networks, which will allow Jio access to 25 million homes across the country. Ambani announced a mega project, Jio Giga Fiber, which would bring optic fibre connections directly to homes to boost data consumption. Currently, distributors like Hathway and local cable operators pocket up to 80% of customer subscription charges, while the content maker gets the rest. With GigaFiber, Reliance plans to replace the distributors and earn distribution fees, which per user is higher than the current telecom revenue per user.

Reliance Industries has invested close to 45% of its total $75 billion capex in Jio. This shows the commitment and ambition of the Reliance Group in making it big beyond the telecommunication industry. It is estimated that additional $16 billion to $18 billion will be invested Jio project in the next five years.

Besides, Reliance Industries’ investments in TV18’s broadcast channels, Balaji Telefilms and Eros International are expected to stand in good stead for the company. Analysts point out that Reliance Industries plans to emerge as a package deal content and broadband service provider through Jio.

Given the strength of the balance sheet of Reliance Industries, this ambition will be easily achieved. It is in this ambition that most telecom players lag behind Jio and it would be very difficult for players to emulate or catch up with Jio given the company’s size, balance sheet strength and limiting ability to take debt.

**BEYOND WORDS**

**HUMAN DEVELOPMENT INDEX**

The ‘good life’ guide. Calculated since 1990 by the United Nations Development Programme, the Human Development Index quantifies a country’s development in terms of such things as education, length of life and clean water, as well as income. Since the mid-1970s, the quality of life for humans throughout the world has improved enormously overall.

America’s human development index rose by around one-tenth between 1975 and 2001, for example. More spectacularly, during the same period, China’s rose by around 40% and Indonesia’s by nearly 50%. Even so, in 2001, some 54 countries were poorer than in 1990, and in 34, mostly in Africa and the former Soviet Union, life expectancy had fallen, reversing an impressive long-term trend, largely because of the HIV/AIDS epidemic and crime. Some 21 countries had a lower overall human development index in 2003 than in 1990.
The year 2018 was a good year for private equity (PE) investments in India. According to Venture Intelligence, a research service focused on private company financials, transactions and their valuations, private equity investments in India rose to their highest ever figure of $33.1 billion in 2018 (across 720 transactions).

While PE investments had already surpassed the previous high - $24.3 billion across 734 deals in 2017 - in the first nine months of 2018, the mega investments in consumer Internet and mobile start-ups such as Swiggy and Byjus towards the year-end, helped the 2018 total vault by 36% year-on-year (y-o-y).

The year witnessed 81 PE investments worth $100 million or more (accounting for 77% of the total investment value during the period) compared to 47 such transactions in the year 2017. Of these, 40 were larger than $200 million each compared to 30 such investments in the year 2017.

The year saw some really large deals such as the $1.3 billion investment in Bharti Airtel’s Africa business by Warburg Pincus, Temasek Holdings Ltd and SoftBank Group Corp; the $1.7 billion investment in HDFC Ltd by GIC, KKR and others.

This was incidentally the largest PIPE (private investment in public equity) investment since Temasek invested about $2 billion in Bharti Airtel, the $1 billion investment in Swiggy by South Africa-based Naspers and the $1 billion investment in OYO Rooms by SoftBank, Sequoia and Lightspeed.

IT & ITeS companies accounted for 32% of the PE investment pie in 2018 (attracting $10.6 billion across 383 deals). Financial Services companies, led by the HDFC and Star Health Insurance, attracted 72 investments worth $5.9 billion and included 17 deals of $100 million or more.
more.

“The mid-year Walmart-Flipkart deal clearly re-energized international investors’ appetite for mega bets in Indian Internet and mobile companies. This has helped offset the slowdown in investments in sectors like Financial Services, Manufacturing and Infrastructure towards the year-end, triggered by nervousness in the public markets and the IL&FS scare,” said Arun Natarajan, Founder of Venture Intelligence.

Will year 2019 be as good as 2018 for private equity investments? Experts say this depends a lot on the global economic and political trends and the upcoming national elections in India. A report by Dechert LLP says that global private equity funds find themselves at crossroads.

The outsized returns they have delivered for decades are under pressure from the sky-high prices that sellers demand today. Fundraising is not an issue but investing the capital raised is more challenging than it has ever been.

As a country, India offers plenty of opportunities for investors looking for high returns. There are many factors, which work in India’s favour.

India has good demographics, with around 60% of the population aged between 15 and 55 years old, private consumption is 58.4% of the GDP and the country is growing at 7% to 8% every year. If India continues to grow at 7% to 8% every year for the next decade, many companies will grow at around 20%, leading to higher returns for investors.

In fact, private equity investments in India in the last five years have delivered higher returns than the ones made earlier. “Average returns on exited investments have risen from 8% from the 2006–2008 vintage to 22% in the 2012–2014 vintage,” says a report by Mckinsey titled, ‘Indian Private Equity: Coming Of Age’, which analyzes a dollar internal rate of return (IRR) for a sample of 654 private equity exits between 2003 and 2017.

The report says that buyout strategies (a deal in which majority ownership is acquired) earned the best returns for private equity players with median returns at 21%. “Several private equity firms shifted focus from minority positions to buyouts, where they have greater control of strategy and talent as well as influence on the manner and timing of exits,” the report says.

From 2015 to 2017, almost a quarter of total private equity investments were in buyouts - up seven fold in value from the 2009-2011 period. This trend is expected to continue in the year 2019. Experts expect a strong pipeline for buyouts or control transactions including large corporates and family businesses, seeking value addition from global private equity firms.

Consumer goods, financial services, healthcare, IT/BPO, machinery and industrial and telecom accounted for 83% of total private equity investment from 2015 to 2017, compared to 44% share during the 2009-2011 period.

The sectors that gave the highest returns were financial services, consumer goods and machinery products, which gave a median return of 15% to 21% range. Telecom industry offered the worst return at a 3% median IRR.

Private equity returns are expected to improve further, after the Indian government introduced key economic reforms such as the goods and services tax (GST) - which has changed the way manufacturing and logistics companies operate, the Indian Bankruptcy Code and the Real Estate Regulatory Authority (RERA). The myriad economic reforms have led to increased transparency and accountability, which has improved India’s ease of business ranking.

Private equity funds continue to see opportunities in many sectors such as logistics, health care and financial services. Experts believe that this year, the Indian industry is likely to see more of operationally-oriented private equity investors, who will serve as active shareholders. The focus will be on governance.

Mckinsey is spot on when it says that companies backed by private equity investors have outperformed, raising revenue and profit on an average 27% faster than their peers. This is because of a growing trend of “alpha” investors, who are taking a more active interest in businesses they invest in.

Globally, there are already economic and political head winds. There is uncertainty over the direction of commodity and currency markets, interest rates, etc. In India, there is uncertainty over economic issues as well as an impending and possible regime change.

The year 2019 is an election year and many private equity investors are hesitant to allocate capital. Experts believe that this uncertainty coupled with a greater focus on governance, will result in lower deal volumes in 2019, especially when compared to last year. The quality of deals will improve while the quantity could reduce.

According to a report in a leading
newspaper, because of the absence of a window for launching initial public offers (IPOs), owing to uncertainty around the outcome of the general elections, more private equity funds will look for exits through secondary transactions.

According to Venture Intelligence, private equity and venture capital exits through the secondary sale route have been on the rise, both in terms of volume and value. In 2016, 50 secondary deals worth $1.9 billion were recorded. In 2017, 57 secondary exits worth $3.3 billion were recorded, as against the 58 deals totaling $5.4 billion for 2018. Private equity and venture capital exits through IPOs have been declining with only 13 private equity and venture capital exits worth $864 million in 2018, compared with 23 exits worth $1.25 billion in 2017.

Another trend, which will continue in the year 2019 is that of mergers and acquisitions, happening through the private equity route. Private equity players will continue to play a key role in mergers and acquisitions transactions, which are expected to increase with the National Company Law Tribunal (NCLT), putting stressed assets on sale. M&A are increasingly taking the private equity route because of the liquidity crisis in the banking and non banking financial companies sectors.

To sum it up, for the private equity sector, the year 2019 will be all about high quality deals and lower quantity. There will be more involvement of private equity funds in the companies they invest in and these funds will continue to play a key role in mergers and acquisitionS.

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STEEL-ING THE THUNDER

The long-term opportunities in India’s steel sector remain good
lobally, steel prices have dropped sharply over the last few months. Concerns over the global economic slowdown, the ongoing trade war between China and the US and declining Chinese manufacturing activities have spooked investor sentiments.

The World Bank recently cut its global economic forecast by 10 basis points to 2.9% in 2019 as against its earlier estimates of about 3%. This is in contrast with the 3% growth in 2018 and 3.1% growth recorded by the global economy in the year 2017.

Mirroring those concerns, stock prices across the board have taken a beating with most of the listed steel companies falling by about 20% to 30% in the last six months.

The degree of decline in the global steel prices was higher. However, because of rupee depreciation against the dollar, the impact has been partially negated.

Nevertheless, the seasonally weaker domestic demand and the impact of elections in five major Indian states also contributed to the fall. Indian manufacturers have not only faced the heat of falling steel prices but are also going through a period of subdued demand.

Recently, the World Steel Association released its data for the
global steel market. According to the data, India’s steel production on a year-on-year (y-o-y) basis declined by 1.3% to 8.5 million tonne. This was in sharp contrast to global steel production growth of 5.8% in November ’18. This was not surprising given falling industrial activity with Index of Industrial Production (IIP) growth dropping to just 0.5% much below compared to estimates of about 3.5% expected growth in November ’18.

THE CHINESE LINK

China accounts for close to half of world’s total steel production. In China a lot of existing capacity, which was closed down because of the flouting of environment norms, are back on stream with new norms accommodating few of the efficient players. This has led to a sudden spike in production and a supply glut in the global steel market.

In October last year, China’s production grew by close to 11% followed by 9.1% growth in November ’18. China does not need this increased supply for its own consumption because of the slowdown in demand. In fact, Chinese demand is weakening as seen in industries like automobile and real estate sectors as a result of its tight monetary policy and the US-China trade tussles.

Growth in floor space sold turned negative y-o-y in September, while auto sales have been falling since July ’18. Growth in land purchases has also started to slow down in recent months.

In this backdrop, China is exporting a large part of its steel in the global market at lower prices, thus compelling others to cut down their prices too. Chinese HRC prices which were hovering around $650/tonne in August last year have now corrected significantly to around $550/tonne. This happens at a time when global supply too has been increasing.

Indicators such as global steel capacity utilization, which has moved up to about 78% recently as against 70% in December ’17, predict increasing supply in the global steel market. In India too supply has only been increasing with more and more stressed assets in the steel sector getting resolved and the buyers of these assets such as Tata Steel and JSW Steel swiftly ramping up production.

Apart from this, a host of green field and brown field capacities are expected to be operational soon. Domestic rating agency, ICRA expects close to 16 million tonne of domestic capacity addition over the next two years.

Because import prices are falling, domestic players have no choice but to lower domestic steel prices to counter imports. Prices have already started falling from about ₹47,500/tonne for the hot rolled coil (HRC) in October ’18 to around ₹43,000/tonne currently.

The other indirect impact of this has been growing imports. In recent months, India’s steel imports have

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**STEEL PRODUCTION, IMPORTS & EXPORTS**

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Oct ’18</th>
<th>Nov ’19</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chinese Steel Production (% YoY)</td>
<td>11%</td>
<td>9.10%</td>
</tr>
<tr>
<td>India Steel Imports (% YoY Growth)</td>
<td>17.30%</td>
<td>12%</td>
</tr>
<tr>
<td>India Steel Exports (% YoY Growth)</td>
<td>-23.40%</td>
<td>-42%</td>
</tr>
</tbody>
</table>

Source: World Steel Organisation, India Government EXIM Data
Beyond Market 16th - 31st Jan '19

It's simplified...

gone up with the October month witnessing close to 17.3% increase in imports and decrease in exports by 23.4%. Similarly in November, India’s steel imports grew by 12% on a y-o-y basis against a sharp 42% decline in steel exports, indicating increasing price pressure.

While Indian companies are cutting prices to match international rates, still they are slightly higher than international figures, thus, forcing some to look for the international markets, particularly companies operating around coastal areas they still find it cheaper to import.

PRESSURE ON PROFITABILITY

While lower steel prices mean falling realizations, which will reflect in their revenue growth in the coming quarters, higher raw material costs is equally worrying. Raw material prices for coal and iron ore have not fallen to that extent because of supply constraints.

Iron ore prices have fallen marginally from about ₹3,700/tonne in October last year to about ₹3,300/tonne in December. However, they still trade higher than ₹2,400/tonne in December ’17. If prices are falling and companies are not able to pass on raw material costs and other fixed charges such as interest costs, it will impact earnings in the coming quarters.

IN A NUTSHELL

In spite of sectoral stress, Indian consumption story remains intact and India continues to be a bright spot in the global steel industry. Overall economic growth and specifically accelerated spend in infrastructure sector including roads, railways and ship building, anticipated growth in the defence sector and the automobile sector are expected to create significant demand for steel in the country.

In addition to this, favourable demographics, improvement in various socio-economic indicators, growing penetration of steel in rural areas, and increased usage of steel in bridges, crash barriers are also expected to contribute positively to steel demand.

Overall, the focus on the Make in India initiative is expected to give a fresh boost to steel consumption through defence and ship building. Major steel players are also moving up the value chain by manufacturing specialized products in close association with their user industries to offset the weak demand in the commoditized steel markets to shore up margins.

Effectively, while there are issues in the short to medium term with increasing pricing pressures, steel prices are estimated to remain muted in the near future due to the underlying oversupply, the long-term opportunities remain good.

Moreover, the recent volatility in steel prices is a short-term phenomenon largely triggered by global protectionist measures undertaken by various governments to preserve their respective domestic steel industry.

Despite pressure, ICRA expects domestic steel demand to grow at around 7% in FY19 and FY20 largely because of infrastructure and the push for affordable housing.

In terms of valuations, steel as a sector is currently trading at about 5-6 times its estimated enterprise value to operating profits of 2019, which is not expensive, reflecting the worries mentioned herein.

The Indian stock markets have already started discounting some of these factors in earnings, which will be largely lower because of higher costs and lower realizations. In this case, while they may look attractive to investors in terms of valuations, if earnings fall higher than expected, valuations would become even cheaper.

BEYOND WORDS

PROPENSITY

Economics abounds with propensities to do various things: consume, save, invest, import, and so on. In each case, it is important to distinguish between the average propensity and the marginal one. The average propensity to consume is simply total consumption divided by total income. The marginal propensity to consume measures how much of each extra unit of income is consumed: the percentage change in consumption divided by the percentage change in income. The value of the marginal propensity to consume, which determines the multiplier, is harder to predict than the value of the average propensity to consume.
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OUTRUNNING COMPETITION

IndiGo is giving its peers a run for their money through prudent strategies in spite of a bleak environment in the industry.
India’s aviation industry is going through peculiar times owing to factors such as intense competition, falling passenger traffic and crude oil prices.

In this backdrop, it is important to know how these factors are affecting the airline industry. Here is a low-down on how key players are responding to these diametrically opposite developments:

**THE CONUNDRUM**

For the past four years, India’s aviation industry had been recording double digit growth in passenger traffic, a rather unusual phenomenon, thus attracting the attention of analysts and investors alike.

- India’s passenger traffic grew 16.52% year-on-year (y-o-y) to reach 308.75 million in FY18. It grew at a compound annual growth rate of (CAGR) of 12.72% between FY06 and FY18.

- Domestic passenger traffic grew 18.28% y-o-y to reach 243 million in FY18. It is expected to become 293.28 million in FY20. International passenger traffic grew 10.43% y-o-y and touched 65.48 million in FY18, which is expected to reach 76 million in FY20.

- India’s domestic and international aircraft movements grew 14.40% and 9.40% on a y-o-y basis to 1.88 million and 0.43 million during 2017-18, respectively.

- During April ’18 to November ’18, passenger traffic in India stood at 226.80 million. Out of this, domestic passenger traffic stood at 181.72 million while international traffic was 45.08 million.

However, this favourable growth in passenger traffic did not coincide with falling crude oil prices. Besides, intense competition among airlines resulted in price war due to which airlines have been making losses and their yields have also been falling. Hence, rising passenger traffic has not resulted in airlines benefitting consequently.

However, in the past three months, there has been a sea change in airline business. Things turned topsy-turvy when crude oil prices began to fall and passenger traffic too plummeted. In the past few months, crude oil prices have dropped to $60/barrel and passenger traffic has been growing in the lower teens. Nonetheless, the business situation has not been affected much.

**THE STRATEGY**

India’s largest airline by market share IndiGo Airlines posted a net loss of ₹652 crore in the September ’18 quarter as against a profit of ₹551 crore in the same period last year.

This will be the first time the airline reported a loss in its operating history. Besides, Jet Airways India has been consistently posting losses. SpiceJet on the other hand is in a slightly better position than Jet Airways.

Jet’s operations have reached a precarious state. When Etihad bought 24% stake in Jet in 2013, Jet had 25.2% market share. Its peers IndiGo, SpiceJet, GoAir, and Indian Airlines had 27.4%, 19.7%, 7.8% and 20% market share, respectively.

Today, Jet’s market share stands at 15.5%. Its peers IndiGo and SpiceJet have 40.7% and 12.3%, respectively. Owing to its failure to enhance its capacity, which was diligently followed by IndiGo, coupled with the entry of new players, namely Air Asia and Vistara, Jet lost its market share. Jet has since been struggling to stay relevant and survive in an intensely competitive airlines sector in India.

Consequently, Jet has to manage its operations with low profit and inadequate cash flows, elevating its debt. As of FY18, Jet has a debt of ₹8,420 crore.

Of this, 77% is non-aircraft debt. Like the recent pumping of ₹2,000 crore, a large part of this debt is being used to fund its historical losses and working capital requirements.

Analysts say Jet’s non-aircraft debt has rupee term loans and non-convertible debentures, which have been acquired at a high cost, adding to its interest expense, which stands at 4.6 times its operating profit in FY18.

Its other expenses (non-fuel) have also risen 37% in the June ’18 quarter on a y-o-y basis. As of FY18, Jet’s cost per available kilometre (CASK) (non-fuel) - a parameter used to gauge efficiency of an airline - was ₹3.17 while its peers SpiceJet and IndiGo had non-fuel CASK of 2.53 and 2.04, respectively.

Given these factors, Jet is at a stage where survival is a big onus and expansion is out of question. Analysts further say that the
measures proposed by Jet would not be adequate enough to remove it from such an extremely precarious situation.

The ₹2,000 crore that Jet raised recently through advance lease incentives and borrowings from domestic banks was used to fund historical losses and service its high debt. Moreover, the induction of cost-efficient planes, wet leasing of aircraft and monetising its JetPrivilege programme would not be adequate to service its high interest expense amid high cost environment.

As per analysts’ estimates, Jet is likely to post an operating loss of ₹486 crore for FY19. For FY18, the company’s interest expense was ₹848 crore, indicating how it would not have enough funds to service its interest expenses, which may pose a risk of default for Jet.

Also, its net worth is negative, which may limit any scope of securing funds from banks or other sources of funding. In such a bleak situation, the airline could seek funds from Etihad through preferential allotment.

Given these facts, one needs to understand the strategy India’s dominant airline IndiGo is following. Despite being a dominant player, it is not increasing its fares. This means that it is following a long-term strategy, which is continuous capacity addition without increasing fares, thus weakening languishing smaller players in the industry.

As the dominant player gains incremental market share and its incremental capacity attains utilization levels or load factor same as its present capacity, it stands to gain immensely when it raises fares. This works even in a high cost environment. To elaborate further, in the past six months, interestingly, of the total 44 planes added in the industry, IndiGo’s share was 32 new planes. Its peers added 3 to 5 planes.

Following this addition, IndiGo’s market share increased by 2.2% in January-August this year while its peers - Jet and GoAir - lost their market share by 1.4% and 0.7%, respectively in the same period.

Also by keeping fares low, IndiGo could be trying to achieve a certain incremental capacity in the industry. Once this incremental capacity attains a load factor closer to its present capacity, IndiGo may raise fares, resulting in a huge gain in the long run, despite a high crude price environment.

At present, IndiGo’s planes are clocking a load factor of 84%. This will help IndiGo regain a better pricing power, showing that IndiGo is on a better footing than its peers by functioning as a capacity leader and gain in the form of superior pricing power in the long run.

Sensing this, large institutional investors have recently bought shares of IndiGo in recent months. On the other hand, FIIs have decreased their stakes in SpiceJet and Jet Airways in the past few quarters.

Besides, with increasing capacity, the airline will be in a better position to cash in on newer routes in southern India, tier-II and tier-III cities. This should boost its revenue growth and raise capacity utilization or load factor of its new capacity in the coming quarters.

And this strategy has paid off. With a gain of 3% market share in the past two quarters, it is amply clear that IndiGo’s prudent strategy of weakening competition and gaining amply through operating leverage has borne the desired outcome.

An advantageous thing about this gain in market share of 3% - it takes its market share to 43% - is the time at which it has transpired. The industry has entered the best phase of business, which is the second half of a fiscal, promising sustained growth in passenger traffic.

Besides, favourable levels of crude oil prices and strengthening of the rupee with respect to the dollar make the business situation for IndiGo better and prudently expedient than the previous two quarters.

Industry analysts believe that IndiGo’s aggression has been displayed at an opportune time in the industry, which could take its market share to at least 45% in the next three years from 43% at present.

This strategy must be looked at in the context of state of operations of its peers also. Jet Airways has been struggling with working capital debt repayment issues.

SpiceJet, on the other hand, has not shown enough aggression due to its size and balance sheet strength. IndiGo with ₹13,163.7 crore on its books and relatively lower structure than its peers is positioned well to make the most of improving demand cycle and benign cost environment.

Lastly, among listed airlines, IndiGo’s stock has a strong negative co-relation with crude oil. As per estimates, IndiGo’s EPS moves down 11% for every 1% rise in fuel prices.

With crude oil prices fallen 34% from its peak of $85/barrel to $55.6/barrel, there is scope for improvement in IndiGo’s EPS. Hence, IndiGo may benefit from the current dynamics in the industry.
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KEEPING OUT

SEBI allows mutual fund houses to segregate distressed assets through side-pocketing
Dowgrades of debt papers issued by companies by credit ratings agencies in recent years have impacted the net asset value (NAV) of schemes that invested in them. In such a situation, mutual fund houses had stopped investors from redeeming the money, which further aggravated the situation.

Markets regulator, the Securities and Exchange Board of India (SEBI) allowed fund houses to segregate their holdings in stressed securities, enabling the said fund managers to segregate liquid and illiquid assets.

There are several investors who believe that only equity funds carry risks and not debt funds. However, before investing in any debt fund one should understand that they are as risky as other funds and one should have a calibrated approach while investing in these schemes.

If investors are looking at parking their money for a shorter duration, then they can look at liquid or short-term debt funds. If they have a slightly higher tenure, then they should look at medium-term funds. And if they want to take some amount of risk, then they should invest in long-term funds or credit funds.

Having said that, all funds carry some or the other risk. There are two types of risks in debt funds, one being interest rate risks and the other being credit risks. The prices of fixed income securities are governed by interest rates prevailing in the markets.

Interest rates and price of fixed income securities are inversely proportional. When interest rates decline, the prices of fixed income securities increase. Similarly, when there is a hike in interest rates, prices of fixed income securities come down.

Funds are allowed to invest in debt papers issued by companies and governments. But like other investments, fund managers are free to invest in high-rated papers (issued by government or PSUs) or low-rated papers to earn more returns.

But when things go wrong for the firm that borrowed money from the mutual fund, credit ratings can drop sharply and the value of the fund could suffer. When underlying investments of debt funds fail to repay their interest and principal amounts, it results in credit risks in mutual funds.

In this article, we have tried to explain SEBI’s rationale behind bringing in these changes, how it will impact investors and whether it will lead to fund managers taking more risks to earn more returns.

**WHAT CHANGES HAVE BEEN MADE BY SEBI**

At its board meet in December, SEBI had allowed mutual funds to create segregated portfolios or create a ‘side-pocket’ facility based on credit events with respect to debt and money market instruments.

In a media release SEBI stated, “Creating Segregated Portfolio may be optional for mutual funds, but approval of trustees is necessary for activating such a portfolio.

“Creation of Segregated Portfolio is a mechanism to separate distressed, illiquid assets from other more liquid assets in a mutual fund portfolio to deal with a situation arising due to a credit event. With a Segregated Portfolio, investors who may take the hit when the credit event happens shall get the upside of future recovery, if any.” The Board noted the recommendations of Mutual Fund Advisory Committee.

Side pockets separate stressed assets from other investments and cash holdings. Having them ensures that while some of the investor money in a debt mutual fund scheme linked to stressed assets gets locked until the fund recovers money from the stressed company, investors are free to redeem their money from other investments.

Whenever the fund house recovers the money from the stressed assets, it pays off the money to unit holders whose investments were stuck in the fund before the default.

SEBI had said that the decision was triggered by the recent crises in non-banking finance companies (NBFCs) and it is in the interest of the retail investors that toxic assets are segregated from assets, which are doing well so that NAVs of normal assets are maintained and there is less redemption pressure.

To bring in regularity in valuations, SEBI also said that they will soon bring out a consultation paper on uniform valuation methodology for pricing of corporate bonds, where they will prescribe guidelines for pricing corporate bonds, which shall be followed uniformly across all mutual funds and evolve a
supervisory and regulatory framework for pricing agencies, which would provide services related to pricing of corporate bonds to mutual funds.

Right now the guidelines are general and debt funds have mark-to-market for the papers maturing above 60 days.

**HOW WILL IT IMPACT INVESTORS AND MUTUAL FUNDS**

Currently, over 11 lakh crore worth assets are under various debt funds and investors will benefit because the danger of holding units in a portfolio that has fallen in credit quality and liquidity as larger investors exit will get reduced.

Earlier in the event of credit default, NAVs would come down and investors would rush to redeem their units at a loss.

In side-pocketing, purchases and redemptions into the standard portfolio will happen normally, while the segregated portfolio will be locked-in. Units will be locked in till such time the companies start paying its interest and dues.

While new investors can purchase units in the main fund at the current NAV, there will be no participation in the side pocket. Basically, in case of default of papers, there will be two NAVs of one single scheme.

However, detailed guidelines are awaited on how side pockets will be implemented by the fund houses.

This rule on side-pocketing will help investors in case of a default event. However, there is concern among a set of investors who believe that the fund manager can now take aggressive credit positions in debt securities to earn extra returns without much thought to risk analysis.

But we have to wait for detailed guidelines as it would give greater clarity on what the implications are for fund managers if they opt for side pockets.

On the other hand, side pocketing will help fund houses to manage redemption pressures better, as other holdings will not be impacted.

Many times, if there is big redemption pressure on the scheme, fund managers are forced to sell good quality papers at a discount jeopardizing returns in the funds.

Segregation of portfolios will be able to focus on recovering the money from the issuer of the paper who had defaulted on payments, bringing in much-needed relief to new as well as existing investors.

**WHAT SHOULD INVESTORS DO**

Till a few quarters back, interest rates were lower and many investors entered debt funds to earn extra returns. While debt funds are better than other products such as bank fixed deposits (FDs), even in debt fund there are some risks. Investors should not look at returns alone and ignore risks while investing in debt funds.

There are few points to consider. Like choosing the holding period or investing only for tax benefits may backfire on investors and reduce overall returns in the portfolio. Investors should have moderate returns expectations and not choose the fund category on the basis of recent returns.

Investors should also keep their risk profile in mind. If they do not like volatility in their debt portfolios - it is better to invest only in liquid or ultra liquid or short-term funds. On the other hand, if they can take volatility, they could consider income or dynamic-bond funds.

Investments in long-term gilt funds are only recommended if they can gauge the direction of interest rates and don’t mind occasional losses.

Investors should also understand that taking higher risks in debt funds will not give them higher returns. Before choosing a debt fund, they should look at the history of the fund, its performance across market cycles and its portfolios.

Do not forget to look at expense ratios just because returns look good after charging them. The expense ratio should be a key factor before investing in debt as well as equity because a difference of one percentage of returns will have a huge impact on the portfolio in the long term.

Finally, one should review their investments in debt funds twice in one year. Investors should be concerned if their average maturity or portfolio’s credit profile has changed materially since their investment.

Higher average maturity in a mutual fund means that the fund manager of the AMC expects a reduction in interest rates and vice-a-versa. Finally, investors should go with growth option to get tax-efficiency on their investments.

For investors with regular income needs, opting for systematic withdrawal plans (SWP) from the growth option after a three-year holding period is the ideal way to earn tax-efficient returnS.
TECHNICAL OUTLOOK

Year 2019 started on a flattish note. Yet, the Nifty somehow managed to sustain above the 50-DMA throughout the month of January. The Nifty is likely to remain volatile due to a host of events such as quarterly earnings results of India Inc, Brexit, the ongoing trade war between the US and China, and the upcoming Union Budget.

The market has a near-term concern regarding two events. One, Union Budget 2019, and two, general elections in India sometime in April and May this year. The coming week is crucial given that Mr Piyush Goyal will be announcing the Union Budget as he has been temporarily given the charge of the finance ministry.

The primary concern of the general public is whether tax liability will be reduced and whether LTCG will be rolled back. If Mr Goyal is able to fulfil market expectations, then the Nifty will definitely rally upwards and vice versa.

A fiscally prudent budget and reforms-oriented government are needed to maintain and increase the pace of growth. The market will be praying for both in the days to come.

Technically, the Nifty has good support at 10,760-10,700 levels whereas resistance is placed at 10,870-10,940. Once the Nifty manages to achieve a breakout of 10,940 level on the closing basis, only then will we witness fresh longs, which might take the Nifty towards 11,040-11,100 levels.

Overall, the view is cautious. Market participants are advised to not generate major long positions at current levels. Fresh positions can be taken only above the 10,940-10,980-mark on the closing basis. Market participants should be stock-specific as quarterly results are underway, and follow the trend till it reverses.

However, the bulls will be able to take control only if the Nifty closes and sustains for 1-2 trading sessions above the 10,940-10,980 levels. As long as the Nifty remains below the mentioned level, an up-move with limited upside could be seen in the market. On the downside though, the next major support exists at the 10,770 level, and later on at the 10,600 level.

Market participants are advised to not generate major long positions at current levels. They should be stock-specific and follow the trend until it reverses.

The Bank Nifty support lies at the 26,990-mark, supported by the 50-DMA. Going ahead, the rally is likely to continue towards 27,500-27,800 levels. If it moves below the 26,990 level, then we may witness a rally towards 26,500 level, i.e., 200-DMA.

On the Nifty Options front for the February series, the highest Open Interest (OI) build-up is witnessed near 10,200 and 10500 Put strikes, whereas on the Call side, it is being observed at the 11,000 and 11,200 strikes.

With four trading days to go before expiry (January), the indices have mainly remained within consolidation with a lot of selling witnessed in Automobile, Metals and Media sectors. The first week of February also holds the announcement of the interim budget and a breakout or a breakdown is expected with the announcement of the same.

India VIX, which measures the immediate 30-day volatility in the market, remained in the range of 14-19 for most part of January. Going forward, VIX will continue to remain elevated due to global risks and announcement of the budget in the first week of February.

The Put Call Ratio-Open Interest (PCR-OI) for Nifty Options has been in the range of 1.25-1.65 in the month of January. Going forward, it is expected to remain subdued and in the range of 1.2-1.6 in February.

The markets are believed to remain highly volatile in the month of February with underlying selling pressure near resistances and aggressive buying near support levels. We can also witness a breakout (11,000) or a breakdown (10,700) depending on the budget announcement. One can trade aggressively in this direction.

OPTIONS STRATEGY

LONG STRADDLE

It can be initiated by ‘Buying 1 lot 28FEB 10800 CE (₹235) and Buying 1 lot 31JAN 10800 PE (₹205)’. The net combined premium outflow comes to around 440 points, which is also your maximum loss. One can keep a stop loss at 100 points premium loss. Maintain a target of 200 points premium gain. The maximum profit one can get is unlimited. The volatility is likely to continue in the next month with VIX staying at elevated levels. A breakout or breakdown in February would lead the strategy to be profitable.
Finance is a maze of umpteen possibilities and choices. And it is easy for individuals to lose their way in this tangle. In such a scenario, an expert comes handy. For, he alone can wade through the enigmatic world of finance and simplify choices for investors.

Buckfast Research, the research arm of Buckfast Financial Advisory Services Pvt Ltd, recommends mutual fund schemes that can be considered by investors.

About Buckfast Research

Buckfast Research, the research arm of Buckfast Financial Advisory Services Pvt Ltd is guided by a team of professionals with more than 50 years of cumulative experience with leading Indian and Global Mutual Fund companies.

A number of parameters have been taken into consideration while making the recommendations. Some of the guidelines are track record of the scheme and consistency, risks associated with the scheme, fund house pedigree and credentials of the fund manager.

However, there is no specific time frame for the investment as such. It depends entirely on an investor’s objectives, investment timeline, risk tolerance and type of scheme he/she wishes to invest in. By and large, equity schemes are suggested with a long-term investment horizon.

Disclaimer

Mutual Fund Investments are subject to market risks. Please read the offer document carefully before investing.

Source: ACE MF, NAV as on 16th Jan ’19.

M=Months, Y=Year, D=Days

Past performance is no guarantee of future performance.

Returns are of Growth option of Regular plans

Returns which are below 1 year period are Annualized Returns

Diversified Funds

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<th>6 month</th>
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<th>3 Years</th>
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### Mid Cap Funds

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### Small Cap Funds

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### ELSS Schemes (Tax Saving u/s 80-C)

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### Dynamic Asset Allocation Funds

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### Balanced Funds

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### Corporate Bond Funds

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<th>6 month</th>
<th>1 Year</th>
<th>3 Years</th>
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### Equity Savings (Arbitrage MIP) Funds

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<th>6 month</th>
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<th>3 Years</th>
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### Dynamic Bond Funds

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## Banking & PSU Debt Funds

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<th>Historic Return (%)</th>
<th>AUM (Cr)</th>
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<tbody>
<tr>
<td>HDFC Banking and PSU Debt Fund-Reg(G)</td>
<td>14.71</td>
<td>12.06 8.62 6.32 7.68 0.00 2803</td>
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<tr>
<td>Kotak Banking and PSU Debt Fund(G)</td>
<td>41.30</td>
<td>11.90 8.66 6.97 7.62 8.14 969</td>
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<tr>
<td>UTI Banking &amp; PSU Debt Fund-Reg(G)</td>
<td>15.00</td>
<td>9.99 8.03 6.96 8.20 0.00 637</td>
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## Medium to Long Duration Funds

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<th>NAV</th>
<th>Historic Return (%)</th>
<th>AUM (Cr)</th>
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<tr>
<td>ICICI Pru Bond Fund(G)</td>
<td>25.16</td>
<td>11.91 8.11 5.01 7.08 8.61 2874</td>
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<tr>
<td>SBI Magnum Income Fund-Reg(G)</td>
<td>43.93</td>
<td>10.65 6.89 4.84 7.83 8.18 1317</td>
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<tr>
<td>UTI Bond Fund-Reg(G)</td>
<td>53.13</td>
<td>6.45 5.00 4.19 7.00 8.19 802</td>
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## Medium Duration Funds

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<th>NAV</th>
<th>Historic Return (%)</th>
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<tbody>
<tr>
<td>Axis Strategic Bond Fund(G)</td>
<td>17.81</td>
<td>10.55 8.15 6.89 8.69 9.23 1222</td>
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<tr>
<td>Franklin India Income Opportunities Fund(G)</td>
<td>21.92</td>
<td>12.56 9.08 8.16 8.33 9.13 3865</td>
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<td>UTI Medium Term Fund-Reg(G)</td>
<td>13.30</td>
<td>8.15 6.31 5.63 7.77 0.00 307</td>
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## Short Term Funds

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<th>NAV</th>
<th>Historic Return (%)</th>
<th>AUM (Cr)</th>
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<tr>
<td>Axis Short Term Fund(G)</td>
<td>19.81</td>
<td>10.51 9.97 7.80 6.62 7.35 4810</td>
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<tr>
<td>Franklin India ST Income-Inst(G)</td>
<td>3238.58</td>
<td>15.49 14.90 11.15 9.44 9.00 11960</td>
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<td>HDFC Short Term Debt Fund(G)</td>
<td>20.26</td>
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<td>IDFC Bond Fund - Short Term Plan-Reg(G)</td>
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<td>13.33 11.11 8.46 6.85 7.12 4929</td>
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<tr>
<td>Money Market Funds</td>
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<tr>
<td><strong>SCHEME NAME</strong></td>
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<td>Aditya Birla SL Money Manager Fund(G)</td>
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<td>Kotak Low Duration Fund(G)</td>
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<tr>
<td>Reliance Low Duration Fund(G)</td>
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<td>UTI Treasury Advantage Fund-Inst(G)</td>
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<td>SBI Magnum Ultra Short Duration Fund-Reg(G)</td>
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<tr>
<td>Reliance Ultra Short Duration Fund(G)</td>
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<td>Franklin India Ultra Short Bond-Inst(G)</td>
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<td>Axis Liquid Fund(G)</td>
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<th>Arbitrage Funds</th>
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<td><strong>SCHEME NAME</strong></td>
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<tr>
<td>Invesco India Arbitrage Fund(G)</td>
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<td>Kotak Equity Arbitrage Scheme(G)</td>
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<td>L&amp;T Arbitrage Opp Fund-Reg(G)</td>
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<td>UTI Arbitrage Fund-Reg(G)</td>
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Resolutions should not be limited to our personal and professional lives. Instead, it should include our investments too.

**NEW YEAR: TIME FOR FINANCIAL ENLIGHTENMENT**

The New Year has arrived! With each passing year, we get older but are we also getting wiser? In the year gone by, how many of us achieved the goals that were enthusiastically set, when the new year bells rang?

It could have been professional (upgrading a skill) or health-related (commencing a healthy lifestyle) or even financial (rebalancing or increasing investments towards having a secure future).

Usually the drive frizzles out with each passing month, because we get carried away or are distracted by our everyday lives and, hence, procrastinate, and then another new year arrives.

We are at that juncture today. Will you choose the path to be wiser or will it be another year lost when the new year rings in the following year?

In the financial planning domain, doing it today makes for an easier or a less chaotic tomorrow. The enormity of losing one year in investing cannot be emphasised more. One less year for building a corpus for retirement or for your child’s education! If that doesn’t sound scary enough, look at it this way.

If you had to save ₹1,000 every year to meet your financial goals in addition to the inflow planned this year, you would have to cough an additional ₹1,080 if the rate of return assumed for 1 year is 8%. Does that not add pressure on you as you have to save more during this year? Laxity in one year may uproot the applecart in the coming year as you will be forced to juggle things around to meet your financial goals.

The New Year is here and is giving us yet another opportunity to clean up and to chalk out a plan for things as small as being disciplined in making payments in time or as big as attaining our goals we have outlined for decades later.

The best way to begin is by not having any abstract or theoretical goals. Every resolution/goal should be actionable and to the extent possible quantifiable. For example, if one of your goals is to pay off the credit bills in time, start by setting up a reminder on your phone so that...
even if you’re travelling or on a holiday, you are reminded of it. So, whatever is the best enabler for you, opt for it.

What are the various things one could choose to do in the financial domain for a better tomorrow?

**RATIONALIZE THE NUMBER OF BANK ACCOUNTS & CREDIT CARDS**

Over a period of time, we tend to have multiple bank accounts because they are made to look attractive, even though we may not need them. It is essential to revisit them because charges are levied for not maintaining a minimum balance and also for debit cards.

You end up having unnecessary expenses. While the charges may seem reasonably small to worry about, every drop builds up an ocean. So, close the accounts that do not serve you any purpose.

Cash backs/freebies, etc draw us towards credit cards and having them in your wallet gives you financial freedom. But at what cost? Too many cards clutter your mind and if you forget to pay any of them in time, the late payment charges are frightful.

Also, your credit history gets tarnished. Fewer the number of cards, the better as you not only have better control over remembering the payment cycles and keeping track of the charges that may be levied, but you also have better control over spending.

**BUDGETING SOFTWARE**

There is absolute clarity on what comes in terms of money for most of us but do we have an understanding of how much is going out and exactly where? Unless there is clarity on what the expense heads for you are, it is impossible to evaluate if there are excesses anywhere.

Standard expense heads cannot be tweaked around with much but if you keep a track of the expenses you will have better control over discretionary spending, which will add to the savings kitty. That’s where a budgeting software can be used. There are so many apps available, which can be used for the purpose. Select the one that you are comfortable with.

**ENHANCE YOUR FINANCIAL KNOWLEDGE**

Over dependence on a financial advisor or agent may come to bite you later, especially if they are influenced by factors other than your financial well-being.

Understanding basic concepts will help you know the products you are investing in. That will directly help you to make the right decisions in times of market underperformance as you understand the timeline and the overall objective.

Read up on financial terminologies commonly used, understand concepts such as compound interest, time value of money and influencing factors of different asset classes. The better you understand what you are investing in, the more you will feel in control of your financial goals as you will avoid hasty decisions when there is a downturn. Start by attending free investor conferences and also by reading up on available online material.

**WORK ON YOUR SAVINGS**

No matter how young you are, the moment you start earning income, you should start saving too, even if it is a small amount because a habit is being created. It will become a way of life. As income levels rise, you will gradually start saving more and more. Savings should be towards attaining a particular goal.

Have you chalked out that plan on attaining the goal? It is never too early to do it. It could be retirement planning, building an emergency fund, building a corpus for your child’s education or even building a corpus for marriage, etc.

If you haven’t already done it, start today. You can take the help of a financial advisor or go online to understand how to go about the planning. After setting up a plan, all you need to do is to stick to what has been outlined to attain the plan. Start getting better organized so that you are not caught on the back foot later on in life, leaving you helpless when it could have been easily avoided.

**PITFALLS OF EASY ACCESS TO CREDIT**

In the age of materialism, it is so easy to get lured into buying things that are not needed simply because of easy access to finance.

While it is great to have financing options, when there is a requirement to buy something or in case of emergencies, vice versa i.e. buying something because finance is available can lead to piling up of debt.

What you also need to remember is that when you pay interest, the cost of your purchase is gradually going up. Ask yourself – is the purchase so important that it justifies the increase in cost that is indirectly happening on account of interest payment?
INCULCATE DISCIPLINE

In order to incorporate investment discipline, the best way out is to automate it, that is, opt for auto debit facilities. That will ensure investments go through irrespective of where you are.

The PF contribution which goes every month from the salary is a case in point by virtue of the fact that the deduction for PF happens every month, you end up building up a corpus without having to put in any additional effort.

Many times you do not even realize that you are securing your future in this manner. So wherever possible, automate investments so that even if you are tied up doing other things, your financial goals are being met.

PAY OFF COSTLY DEBT

If you have money in your savings account that is earning you lower interest than the loan you may have taken, it’s time to repay them. While taking the loan, you may have been in a cash crunch situation but when the situation eases, it is essential to re-evaluate the debt taken and see if it can be prepaid because you are paying more interest than receiving from the bank. If you have multiple loans, you must prioritize on paying off high-cost loans when liquidity situation eases.

OPT FOR ADEQUATE PROTECTION

In times of adversity, whether medical or life, having adequate protection prevents stress on one’s financials. In order to avert financial stress, opt for medical insurance policies because medical emergency is among the biggest reasons for financial distress.

In order to prevent your family from going through a financial shock, it is best to opt for a term insurance policy to protect them financially in case of any eventuality. If you do not have one in place, look for a policy today. Remember that with every passing year, insurance premiums shoot up.

KEEP AN EYE ON YOUR CREDIT SCORE

One can be in need of funds at any point in time. In order to get any loan today, most organizations will review the credit score of the candidate, which essentially gives a picture of the repayment ability. With an average credit score, you may still get a loan but the cost may be high.

Hence, it is essential to regularly meet the repayment schedule of any loan, credit card or bills. Delay in repayment gets reported and it negatively impacts one’s credit score.

It may be worthwhile to check your credit score once in a while. If your score has been affected due to indiscipline in the past, read up on ways to improve your credit score and do it now. You never know when a rough wave hits you.

For most of us, the New Year in itself is good enough to drive us towards chalking out our financial resolutions. While that bit has been taken care of albeit effortlessly, what remains is execution and that’s where we tend to falter.

You can choose to have old wine in a new bottle by forgetting about all the resolutions made as the months pass by or have greater control over your financial lives through regular monitoring and focus.

And if indeed this year turns out to be different, when the next new year arrives, you will feel more financially safe and securE.

BEYOND WORDS

CETERIS PARIBUS

The Latin phrase ceteris paribus – literally, “holding other things constant” – is commonly translated as “all else being equal.” A dominant assumption in mainstream economic thinking, it acts as a shorthand indication of the effect of one economic variable on another, provided all other variables remain the same. In the fields of economics and finance, the phrase and concept is often used when making arguments about cause and effect.

Most, though not all, economists rely on ceteris paribus to build and test economic models. In simple language, it means the economist can hold all variables in the model constant and tinker with them one at a time. Ceteris paribus has its limitations, especially when such arguments are layered on top of one another. Nevertheless, it is an important and useful way to describe relative tendencies in the markets.
Uttar Pradesh (UP), India’s largest sugar producer, has retained the state advised price (SAP) - a minimum price that millers have to pay to farmers for cane supply - for sugar season (SS) 19 at ₹315 per quintal (100 kg).

Sugar season is from October to September. Separately, due to bad weather and lower yields, India’s sugar production is likely to be lower than what was predicted a few months back. Both the news augurs well for sugar mills in UP and other states.

What Is State Advised Price (SAP)?

The centre prescribes a minimum price called as fair and remunerative price (FRP). It is akin to minimum support price (MSP) given to the farmer on other crops like wheat and paddy by the government. However, some states have their own state advised price (SAP), which is fixed higher than the FRP.

For instance, FRP for normal variety of sugarcane for SS19 is fixed at ₹275 per quintal (100 kg) by the centre (₹255 per quintal in SS18); but the UP SAP is at ₹315 per quintal, same as last season.

What Is Stable SAP Indicating?

The sugar sector in India follows a cycle: Higher cane production → means higher sugar output → higher output lowers sugar prices in the market [a down cycle].

Now, lower sugar prices in the market → force farmers to shun cane production→ resulting into lower sugar production → which translates into higher sugar prices in the market → resulting into high cane production [an up cycle].

In this cycle, SAP plays a major role in helping cane growers decide in how much acres of land sugarcane needs to be grown in. Stable or lower SAP is an indication that the sugar sector is facing a glut and price realization may be lower for farmers in the future.

So, How Is Stable UP SAP Positive For Millers?

Firstly, a stable SAP means steady outgo for sugar millers. For a miller around 80% of the overall cost is towards sugarcane. Secondly, with the use of better technology and cane diversion to by-products, millers can make more money.

UP, Maharashtra and Karnataka produce around 80% of the country’s sugar. Clearly, UP sugar market can influence the sugar market in India.

With steady outgo, millers can manage payments to cane growers. In SS18, cane arrears swelled to upwards of ₹22,000 crore nationally, before falling on the back of subsidies and reform measures by the government.

What Is The Current Status Of The Industry?

The sugar production in SS19 is expected to be around 31.5 million tonnes (MT) lower than the preliminary estimates. These were given in July ’18 and were around 35 MT.

Lower estimates are due to the decline in sugarcane availability in UP, Maharashtra and Karnataka resulting from bad weather, pest attack and lower yields.

India ended SS18 with around 32 MT. India consumes around 25 MT per annum. Clearly, there is ample surplus given stock of previous years.
How Is Lower Production Positive For Millers?

Lower supply translates into higher sugar prices in the market. This, in turn, improves miller’s profitability. Plus, millers are likely to export around 5 MT in SS19 and also divert some cane to produce ethanol. All this will ensure sugar prices in the market will improve. In fact, sugar prices have started to show an uptrend in the past few weeks.

WORLD BANK 2019 PROJECTIONS

The World Bank has projected a global economic growth rate of around 2.9% for 2019. The report titled ‘Darkening Skies’ has sketched a gloomy outlook for the next few years.

What Are The Projections?

The World Bank expects global economic growth of 2.9% in 2019. For 2020 and 2021, the global economic growth has been forecasted at 2.8% in each year.

To recall, earlier the World Bank had projected higher growth rates for these years. For 2018, the global growth estimate has been revised downwards from 3.1% projected in June ’18 to 3% in the current report.

Why Is The Outlook Negative?

World Bank has cited softer international trade and manufacturing activities, elevated trade tensions and financial market pressures in some of the emerging economies as reasons for lower growth projections.

How Are The Developed Economies Likely To Perform?

World Bank expects advanced economies (US, Euro zone and Japan) to grow at 2% in 2019, lower than 2.2% as predicted in 2018. Lower projection is owing to capacity constraints and withdrawal of policy accommodation by these nations.

However, economic activities in the US will continue to expand owing to fiscal stimulus, and is likely to grow by 2.5% in FY19. However, US growth will come down to 1.7% and 1.6% in 2020 and 2021, according to the report.

What Are The Key Risks To The Forecast For Global Growth?

According to the report, the projections of the World Bank may be revised lower because of following risk factors:
1) Strengthening US dollar, which may lead to heightened financial market volatility and may intensify capital outflow.
2) Increasing borrowing costs in the aftermath of gradual withdrawal of accommodative policies by major central banks.
3) Volatile energy prices and weakened metal prices.
4) Escalating trade restrictions, particularly the trade tension between the US and China, if unresolved could further hamper the global growth as it could have a spill over effect on the emerging markets.

What Is The Outlook On India?

According to the report, India is expected to remain the fastest growing emerging market economy. India’s growth forecast has been kept unchanged at 7.3% for FY19, and at 7.5% for the next 3 years.

In the report, the World Bank states that the domestic demand is improving owing to structural reforms undertaken by the government in recent years and a revival in credit growth.

Current account deficit (CAD) is expected to widen to 2.6% of GDP in 2019 while inflation is projected to rise owing to higher energy and food prices.

The World Bank report has also cited fiscal slippages, rising inflation and possibility of delays in structural reforms to address the weakness in the balance sheets of banks and non-financial corporates as risks to the growth forecast.

Faster-than-expected tightening of global financial conditions can also pose as a major risk for India, according to the report.
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