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Lifting Hopes

The fall in GDP numbers for Q4 FY17 is a cause for concern. Yet, hopes for an improved and a positive year ahead continue to be high. The Indian stock markets have been touching new levels, ably aided by improving global economies and a stable domestic scenario.

The cover story in this issue of Beyond Market talks about the main factors that led to the drop in GDP and what the stock markets can expect in the coming financial year. Read on to get a better understanding of the economic situation in the country.

Other articles covered in this issue are the infusion of liquidity in the Indian stock markets off late, the reform measures announced to control the misuse of Participatory Notes, which has led to the lack of investor interest in them, the major changes in the real estate sector in India that could result in only the fittest players surviving the ambush, the introduction of perpetual bonds as an investment product, which is gaining favour among high net worth individuals (HNIs), job cuts across sectors due to automation, and the current state of the liquor industry in India after the ban by the Supreme Court as well as the directives imposed by the government.

Also featured are interesting articles on how Indian companies are working on different business models to tap the opportunity in rural India, growth prospects of companies in the sportswear industry in India, the tactics applied by film makers so as to enable their films to cross the ₹100 crore mark at the box office, and the future of wealth management, courtesy robo advisory.

The Beyond Basics section carries two good reads. While one gives a detailed insight into health insurance policy and why it is imperative for individuals to purchase one in present times, the other dwells on various financial instruments investors can look at instead of the traditional option**S.**



Tushita Nigam
Editor

DB Corner



> **The Indian stock markets look good on declines.**

In the previous fortnight, the Indian stock markets were seen making new highs, buoyed by a strong rally in the global markets, mainly due to upbeat world economies.

After years of delay, the goods and services tax (GST) bill was finally implemented smoothly earlier this month.

While Q1 FY18 corporate results are likely to be mixed, the expectations for FY18 by industry experts continue to be quite high.

Monsoon rains have picked up well, covering most parts of India and have been above average so far.

The Indian stock markets look good on declines. The Nifty has support around the 9,700 level, while the expected target is around 10,200.

Market participants are advised to watch out for the impact of reversal of quantitative easing programme as hinted by the US Federal Reserve as well as key central banks of the European Union and Britain, and the likely increase in interest rates. They can also expect the Reserve Bank of India (RBI) to announce a rate cut in its next monetary polic**Y.**



Sensex: 31,710.99
Nifty: 9,827.50
(As on 18th Jul '17)

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GDP took a big hit in FY17 Q4, but experts see it recovering this quarter and ending the fiscal at 7%-plus growth

FINGERS CROSSED

in 3 - 4 months to get a proper picture.

The Annual Survey of Industries (ASI) data, which can be used as a proxy for the unorganized sector, will be replaced with Index of Industrial Production (IIP) in the GDP but only by 2018-end. Meanwhile, IIP remains an unreliable and volatile gauge. It showed factory output accelerated to 3.8% in March, after rising a tepid 1.9% in February.

But the numbers for April suggest that the pace has decelerated again, falling to 3.1% over the year-ago period. If IIP shows improvement, then there is a chance that in the next month it will show deterioration.

Some experts fear structural dent to the economy due to note ban, which was being manifest by the farmers' protest across the country.

BLACK MONEY

Except manufacturing all the hardest hit sectors are the ones generally blamed for the prevalence of black money. Some experts say the contraction in construction shows that demonetisation massively blocked black money funding of the sector. Demonetisation may have hit the black money areas of agriculture, pulling down the sectoral figures.

GROSS CAPITAL FORMATION

The gross fixed capital formation (an indicator of the investment rate) has dropped to 27.1% of GDP. In 2016-17, at 2.4%, growth in investments was less than half of the 3.3% growth it logged in 2015-16. Sequentially also, there has been a steady decline all through 2016-17.

The standard explanation for this subdued investment scenario is stressed corporate balance sheets and banks struggling with the burden of non-performing assets. Experts say demand was more of a problem than non-performing assets, which, though high, is confined to a handful of sectors. The main issue is companies not investing due to excess capacity and lack of demand.

Experts say the capital expenditure cycle was unlikely to revive in the near term. Private companies, analysts say, have shifted their focus to productivity improvements rather than capital expenditure. The problem of low capacity utilization levels will lead to higher mergers and acquisition activity in the near to medium term.

Experts say the need of the hour is huge infrastructure spending and focus on affordable housing. They say the time lost in addressing the banking sector's woes has put a huge price on the economy.

FDI IN INDIA

Foreign direct investment (FDI) equity inflows estimated at around $43.5 billion for 2016-17 have helped bridge the investment shortfall. But the country's investment/ GDP ratio must be higher than 25% to achieve economic growth of 8% or more.

Also, India's incremental capital output ratio must be rather high at around 5 to 6 as the number and volume of stalled projects have not declined, which puts the trend growth rate at around 5% to 6%.

THE WAY AHEAD

Experts see the June quarter better than the March one. GDP growth may settle in the range of 6.5% to 7%, as per industry experts. It said the short-term impact of GST disruption will help India see better growth in the second quarter. "The indicators that we are seeing so far in terms of high-frequency numbers – car sales, two-wheeler sales, tractor sales, the momentum that we are seeing in terms of coal production, power generation are suggesting that on an average the June quarter will still be better than the first quarter," it said.

Consumers would expect prices to come down after the GST is applied totally while wholesalers would keep low levels of inventories during the transition period. Also, there has been some cut back on production, which will have some impact on the industrial production numbers in particular, it said.

Overall, a 7% GDP growth this year and 7.8% in 2018, is likely, keeping in mind improving fundamentals backed by business-oriented reforms. Fitch Ratings expects investments to pick up soon owing to a revised monetary policy over the last two years, and structural reforms in the economy such as GST. It sees government spending on infrastructure rising, leading to an increase in investment. The agency forecast GDP growth at 7.4% to 7.6% for the next two fiscal years, but said consumer price inflation would also rise.

A few also see growth recovering to 7.2% this fiscal and further to 7.7% in 2018-19 largely driven by the government's reform push and recovery in private investments. The gradual pace of recovery will help improve productivity dynamics and lay the foundation for growth.

The report lauded the reform push of the government, like GST, inflation targeting, a new bankruptcy code, financial inclusion, measures to curb black money, liberalization of FDI, encouraging digitalization, etc.

The finance ministry was confident that the economy would grow by 0.50-0.75 percentage points in the current FY, compared to **FY17.**

Great fiction nowadays is not written on the MS Word software but on Excel, says a Twitter tickle. By that yardstick, India's GDP is a pacy thriller with pessimists and optimists wrangling over the data.

The latest squabble broke out with the January-March '17 numbers, which saw the GDP growth falling to 6.1%, a four-quarter low. Coming in the quarter immediately after the demonetisation one, the numbers were a shocker to many as the third quarter was quite resilient and suggested that the storm had passed.

The naysayers were quick to blame demonetisation for the dent while the government blamed it on a slowing global economy. It argued that the note ban has structurally changed the economy and behaviour, which would reap rich gains ahead.

SO, WHAT'S UP?

India's GDP growth fell to 6.1% in the fourth quarter of 2016-17, with construction and financial services sectors hit the most.

Gross value addition (GVA) - the difference between gross domestic product (GDP) and net indirect taxes - was 5.6% in Q4 - the lowest in at least eight quarters.

In tell-tale signs of the effect of demonetisation on broad economy, the growth was pushed primarily by agriculture and government spending. Excluding the two sectors, GVA grew a mere 3.8%, down from 8.4% in Q1.

Construction sector contracted 3.7% in Q4 against 3.4% growth in Q3 and 6% in the year-ago quarter. Financial services, real estate and professional services rose 2.2%, against 3.3% in Q3. Manufacturing growth halved from 10.7% in Q1 to 5.3% in Q4.

Worrisomely, investments continued to plummet. Gross fixed capital formation (GFCF) growth fell to 2.1% in Q4 FY17. It grew 3% in Q2 and 7.4% in Q1.

Government expenditure, on the other hand, rose 31.9% in Q4 FY17 from 21% in Q3 and 16.5% in Q1 and Q2. Private consumption expenditure, which denotes demand, grew 7.3% in Q4, against 11.1% in the Q3, 7.9% in Q2 and 8.4% in Q1. Experts say the bump in Q3 was due to the use of old notes in some sectors.

The delta between the overall GDP growth and the GDP growth excluding the government sector hit at an all-time high of 2.1%. In the high-frequency data, the upper echelon of consumption was robust but downwards, the indicators such as cement production, commercial vehicles sales showed stress.

The GVA of finance, real estate and professional services shows it will take quite a few quarters for it to reach the level last seen in the second quarter of 2016-17.

From the peak of 9.21% growth in the last quarter of 2015-16, GDP has declined continuously in every quarter since.

STRUCTURAL ISSUES

A range of problems will affect India's growth rate going forward. The banking system, the mainstay of the economy, is under stress. Also, the reforms that have a potential to deliver in medium to long-term - GST and sale of assets like Air India - can entail a lot of disruptions and even spring up a negative GDP.

With GDP growth slowing since Q4 of FY16, remonetisation may not be enough for the private sector to return to the heydays of growth.

DEMONETISATION

Some analysts say the effect of demonetisation is overblown and would have a mere 0.2 percentage point drag in fiscal 2017. GDP is measured on a production basis, and demonetisation won't affect agriculture. The heaviest blow will fall on the cash-run informal sector. But that accounts for just 10% of GDP and is measured based on what's happening in the formal sector. Any damage will be hard to see.

Short-run positives from demonetisation have also been somewhat neglected, they said, adding lower lending rates from surging deposits, a private transfer of 'black' wealth to the poor, the booking of advance sales and increased declaration of income to the tax man are all sources of an upside.

INFORMAL SECTOR

In the current setting, the main issue is there are inadequate gauges that can capture what goes on in the informal sector, which is 40% of the economy. Experts said the good numbers posted by certain segments may be overstating the extent of real economic growth.

Industrial production, even on the basis of the new index released a short while ago, has been mostly flat; credit disbursements are at an all-time low. The country's statistical system is not equipped to capture the full effect of this on incomes and living standards, precisely because of the size of the informal sector.

Experts say the real impact on the economy and the actual degree of deceleration of economic activity are much greater. For Central Statistical Organisation, it is a work in progress as it expects more government data from Q4 by August and company data



Liquidity Rush

High liquidity is the new normal in the markets

There is a small section of corporate India that is doing well currently. While demand is yet to pick up meaningfully in important sectors, earnings' growth of most companies has been downgraded.

In fact earnings of key broad market indices such as Nifty and Sensex have been downgraded.

Foreign Institutional Investors (FIIs), it seems, are playing a wait-and-watch game. They are hardly contributing to the total inflows into the markets.

Considering these facts, liquidity in markets has been incessant and unabated. Furthermore, share prices have been rising without a strong and solid rationale behind the rise.

Let us find out which participants are contributing to the flows into the markets and what is responsible for this phenomenon especially when most key companies have to show considerable improvement in earnings by looking at the macro factors in the context of the Indian stock markets.

INCESSANT FLOWS

Inflows into the markets have been rising because a lot of money has been parked in the banking system following the demonetisation drive initiated by Prime Minister Narendra Modi in November '16. As part of the move, the government decided to demonetise high-value currency notes of ₹1,000 and ₹500. This is reflected in the rise in the number of folios (accounts with mutual fund houses).

Data released by the Association of Mutual Funds in India (AMFI) shows that the number of folio accounts of high networth individuals (HNIs) and institutional investors increased year-on-year (y-o-y) by 39% and 23%, respectively in the March '17 quarter. HNIs and institutional investors boosted inflows into mutual

funds after the demonetisation drive that began in November last year.

The cumulative net inflow into mutual funds in FY17 was ₹99,775 crore. As of November '16 when demonetisation was initiated, net inflows in mutual funds were ₹36,021 crore, which in the subsequent three months till February '17 grew by 2.6 times to ₹95,013 crore, with major contribution coming in from HNIs and institutional investors.

This sharp jump can be attributed to a number of reasons. First, lack of limited attractive investment avenues before investors. Second, negligible returns on bank deposits in conjunction with high rate of inflation. Third, loss of attraction for gold and real estate with no clear sign of price improvement in the future.

HNIs and institutional investors who invest in real estate, gold and fixed deposits, invested in mutual funds due to higher returns as against most traditional investment avenues. Besides, the number of wealth managers pushing mutual fund products to HNIs has also increased.

The average ticket size of investments by institutional investors grew by 24% to ₹11.1 crore on a year-on-year comparison in the March quarter. For HNIs, it was ₹19 lakh compared with ₹19.6 lakh a year ago; the drop was compensated by high growth in HNIs' folio accounts.

For retail investors, who typically opt for Systematic Investment Plans (SIPs), folio accounts improved by 15% year-on-year. The average ticket size of their investment rose by 24% to ₹75,801.

THE RATIONALE

Apart from the money that has come into the banking system, which led to incessant flows into the market, there is another reason for high liquidity in the market.

Investment avenues such as gold, real estate and other non-equity investments have not been remunerative. Besides, investors have not invested enough money in equities over a longer period of time. Therefore, there is a bit of renewed interest in equities.

This is happening across markets. It is not a one-year phenomenon but a multi-year one. There are multiple reasons for this. In the past two or three decades, equities have been a better performing asset class across the markets.

One needs to understand that risk perception about equities has progressively come down over the years, leading to re-rating of equities.

Risk perception has come down for various reasons. One, investors have begun to objectively compare the risks associated with other asset classes. Earlier gold was perceived to be a no-risk asset. Then, people realised there are risks associated with it. Later, people thought real estate has low risk. And then the sub-prime crisis happened in the US, turning this view on its head. Same was the case with commodities.

Whenever people invested in the aforementioned asset classes, they always regarded equities as an asset class with highest risk.

But they realised that of all the risks associated with asset classes, equity risk is a quality risk. They realised that buying equities is not just about buying shares. It is about buying the product, technology, innovation or some service. This realization has progressively made people confident about equities.

Even people's perceptions about companies have changed. Today, due to high amount of disclosures of companies to stock exchanges, people have a great deal of information about the product, operations, marketshare and financials of companies.

Due to this, these investors have understood market and industry cycle better than those who struggled to obtain basic information about the company in which they invested. More so, these savvy investors have understood that equities are a long-term investment enterprise and that one has to wait patiently to make real good returns.

So, today investors who invest in equities are willing to wait for more than one year and reap benefits on their investments. Given these realities, there have been incessant inflows in equities.

THE BIG PICTURE

What has created a problematic situation for analysts and fund managers is the manner in which liquidity in the market is now seen chasing stocks.

A large amount of money is chasing a few good stocks, flummoxing fund managers and analysts as to what stocks to pick for investments and recommendations. This has become a new normal in markets in which share prices of companies have been going up and their valuations of most good companies are at an historical high.

SO, HOW DOES ONE DEAL WITH THIS NEW NORMAL?

Fund managers and analysts recommend investors to be disciplined now. They point out that the time to take risks was when the markets were pessimistic. Today, when markets have run-up, it is time

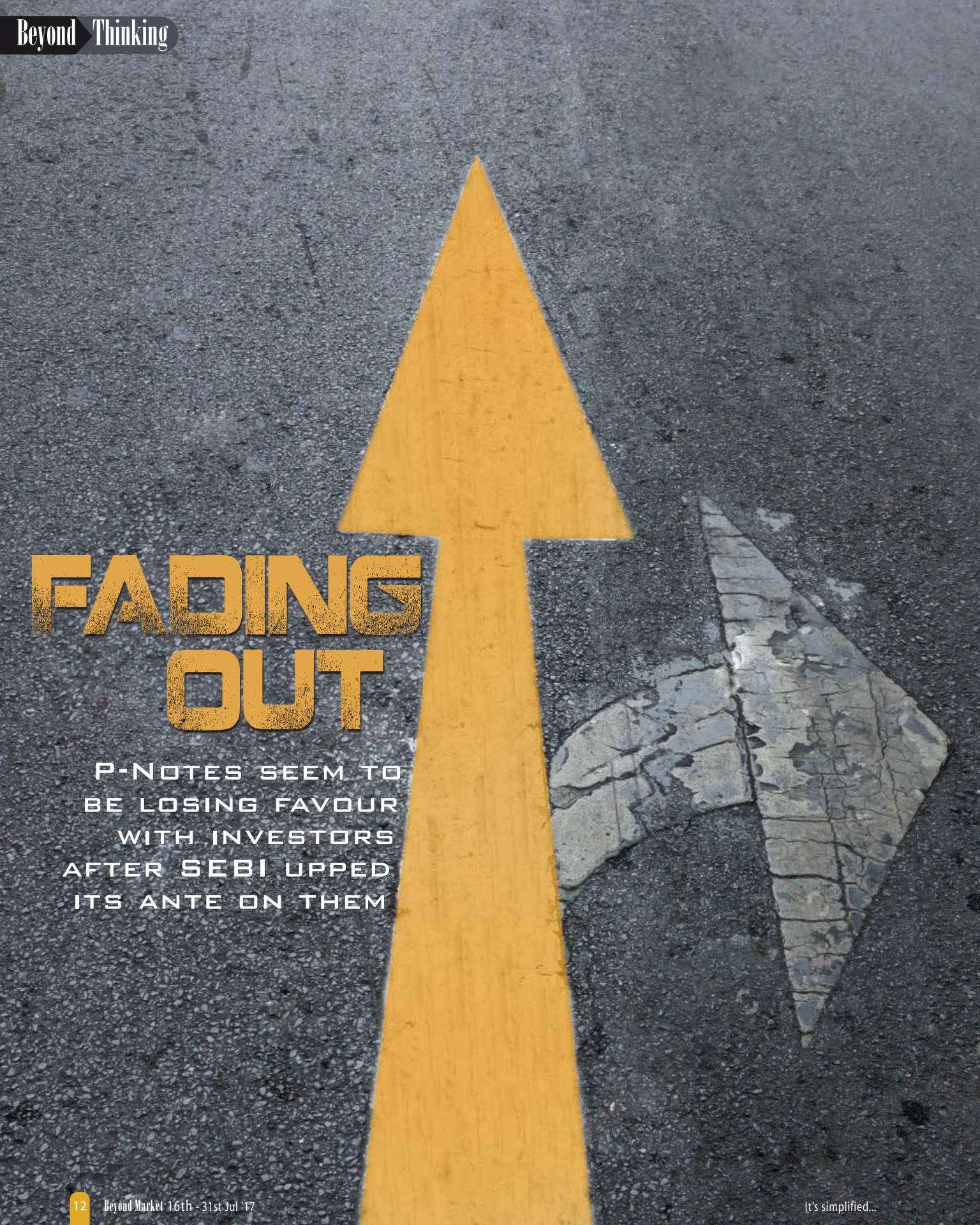
to be disciplined. Rather than investing money in a lump sum manner, they recommend investors to invest in equities through the systematic investment plan route. They say that today if investors want to maximise near-term returns in the markets, they will inadvertently take higher and higher risks.

A key thing to note here is the relative picture. In comparison with other emerging markets, India is a safe haven. India is relatively more stable because of two reasons. One is macro-economic factor and the other is that some emerging markets are considered to be cyclical, others are thought of as defensive.

When one compares Indian markets with other emerging markets using fiscal deficit, interest rate, inflation, currency volatility and other macroeconomic parameters, he/she will find that India would fall in the top quartile in terms of economic stability and growth.

The Indian market is a good mix of defensive and cyclical. These two key factors would continue to play in favour of Indian markets and the Indian markets would continue to trade higher in comparison with other emerging market**S.**





FADING OUT

P-Notes seem to be losing favour with investors after SEBI upped its ante on them

Market regulator, Securities and Exchange Board of India (SEBI) has upped its ante on Participatory Notes (P-Notes). In its two successive board meets of April and June, SEBI has announced measures aiming to clampdown on foreign investments through P-Notes.

Offshore derivatives instruments (ODIs) or P-Notes, as they are generally referred to, are issued by SEBI-registered foreign portfolio investors (FPIs) and are subscribed by foreign investors that either want to hide their identity or do not like the unnecessary compliance cost.

In the Indian context, over the years, P-Notes are seen as opaque structures hiding identity of the ultimate investor. Allegedly P-Notes are often misused to avoid taxes, increase speculation, round tripping and money laundering. Indian regulators dislike P-Notes and have taken many measures to tame it.

In April, SEBI prevented resident and non-resident Indians (NRIs) from using P-Notes for investment into Indian markets. SEBI also restricted entities that are beneficially owned by NRIs from subscribing to ODIs.

Further, in June this year, the regulator proposed to levy a fee of $1,000 on each P-Note issued by FPIs once every three years retrospectively from 1st April this year. The regulator also prohibited issuance of P-Notes by FPIs that have no underlying in the cash market.

Simultaneously, the regulator plans to liberalize its registration process.

More recently, on 28th June, SEBI came out with a consultation paper with the aim to ease access for FPIs in India. All the recent moves are in line with the regulator's plans to make the Indian market transparent and make P-Notes less attractive as an investment route.

ENDANGERED SPECIES

P-Notes as an investment route for foreign investors will eventually become irrelevant. This is because compliance and regulatory costs will kill them slowly.

Foreign investments through P-Notes are already on the downward trajectory. In 2007, 50% of all foreign investments in India were through P-Notes.

In 2017, the P-Notes route comprised only 6% of all foreign investments. In absolute terms, the outstanding value of these instruments stood at around ₹4.1 trillion in 2007. This has fallen to ₹1.7 trillion in April '17.

Recent Measures Announced By SEBI

Event	Date	Announcement	Purpose
SEBI Board Meet	26th Apr '17	Resident/NRIs or related benefiting entities barred from subscribing to P-Notes	To keep a check on round-tripping of black money
Consultation Paper	29th May '17	- Proposed $1000 fee per P-Note for a period of three years - P-Notes not allowed if derivatives against which they were issued have no cash market underlying	(Public comment accepted till 12th June)
SEBI Board Meet	21st Jun '17	Based on public comments, both the above proposals have been accepted	To lower speculative trades, streamline the process for monitoring P-Notes and ensure transparency
Consultation Paper	28th Jun '17	To ensure ease of access for investments by FPIs	(Public comment accepted till 27th July) To help foreign investors to register with SEBI and invest directly
Guideline	7th Jul '17	- P-Notes not allowed if derivatives against which they were issued have no cash market underlying - Unwinding of existing positions on maturity day or before December '20.	To cut down on speculation

Participatory Notes (P-Notes)

P-Notes are complex investment tools. A SEBI-registered FPI with an exposure to Indian markets can issue P-Notes to foreign investors, which are called subscribers. In the Indian context, all offshore derivates instruments (ODI) like Participatory Notes, Equity-Linked Notes, Capped Return Notes and Participating Return Notes are referred to as P-Notes. ODIs and P-Notes are used interchangeably.

Till recently, there were no system of checks and balances on the use of P-Notes. Over the years, P-Notes have become an opaque route for investment by foreign investors. P-Notes were transferred downstream to other foreign investors, without leaving any trail. The end user of P-Notes remained hidden, leaving room for illegal activities like round-tripping of untaxed wealth, money laundering, terror financing, etc.

A slight hint of regulating P-Notes would trigger a sharp fall in the market. But, with recent policy measures in place, SEBI is in a position to contain the evils of P-Notes. Now, SEBI can easily identify the end user of a P-Note. For SEBI, it has become imperative to cut down on the usage of P-Notes for speculative purposes. Any major global event and short-term investors like hedge funds would become active in P-Notes and indulge in short selling.

Having said that, P-Notes cannot be completely wished away as it has its own place with some genuine foreign investors that are long-term players but still dislike regulatory and compliance costs. Many mature markets have such investment tools. Even India encouraged P-Notes in the past as the Indian markets were undeveloped and needed liquidity.

POLICY MEASURES

Globally, there has been increased sensitivity about opaque investment tools like P-Notes. Even the Indian government, with its mission to end black money, has been wary about P-Notes.

Rules on P-Notes have been tightened several times in recent years. Tightening of norms on P-Notes by SEBI intensified after suggestions from the Supreme Court-appointed Special Investigation Team (SIT) on black money in July '15.

The SIT was set up to address the issue of black money and untaxed wealth. SIT flagged P-Notes issued by foreign institutional investors as a possible conduit for illegal funds in the capital market. The SIT report suggested increased regulation of fund flows through this route. SEBI has been on the edge to contain P-Notes.

In May last year, SEBI made Indian norms on Know Your Client (KYC) and Anti Money Laundering (AML) applicable to all P-Note issuers. SEBI has mandated P-Note issuers to report any suspicious transactions to the Indian authorities.

Transfer of P-Note has also been made difficult. Further, the P-Note issuer has also been instructed to report the trail of P-Note exchanges over the month to the regulator.

The P-Note issuer also has to identify the subscriber. (An in-depth analysis of these measures announced by SEBI has been covered in Beyond Market's issue of May last year.)

CURRENT CLAMPDOWN

While SEBI doesn't desire a complete clampdown on P-Notes, the regulator through its various policy measures has already succeeded in reducing the attractiveness of P-Notes. The measures announced in the past few weeks will also make indulgence in P-Notes cumbersome.

Prevent Resident/ Non-Resident Indians From Using P-Notes

SEBI has prevented resident and non-resident Indians (NRIs) from using P-Notes for investments in the Indian markets. SEBI has also restricted entities that are beneficially-owned by NRIs from subscribing to P-Notes.

Analysis: There have been cases of round tripping of black money of residents or NRIs via P-Notes. In the past also, SEBI has expressed its dislike for NRIs using P-Notes to invest in India.

Many big FPIs that issue P-Notes have already restricted NRIs from subscribing to P-Notes. Now, issuers will also have to prevent entities that are beneficially owned by NRIs from

subscribing to ODIs. With NRI-related entities within the ambit, the practice of round tripping of black money will be prevented.

$1000 Fee Per P-Note For 3 Years

SEBI has levied a fee of $1,000 on each P-Note issued by FPI for a period of three years retrospectively from 1st Apr '17.

Simply put, if a subscriber uses three FPIs for subscribing to P-Notes, he will have to pay $3,000 as regulatory fees to SEBI.

Analysis: Quite a few P-Note subscribers invest through multiple issuers. Now, the regulatory fee will discourage the ODI subscriber from taking the ODI route and encourage them to directly register as an FPI.

Also, SEBI incurs a huge capital (mostly information technology and systems) and manpower expenditure in monitoring P-Notes. These fees will make P-Notes expensive and also subsidise SEBI's expenses.

Prohibit Naked Derivates Position On Which P-Notes Are Issued

Market regulator SEBI has further prohibited P-Notes from being issued against derivatives on which there is no cash market underlying.

Typically, the issuer takes a position in the Indian derivatives market and issues P-Notes on that position. But that position may not have any cash market co-relation. Now, SEBI has mandated P-Notes on derivatives only if there is cash market underlying.

Analysis: The FPI issuer may have no cash position but unlimited derivatives position on which it can issue P-Notes. This is highly speculative. SEBI now prohibits such naked positions in the market.

FPIs can continue to issue P-Notes against cash positions. All existing naked derivatives positions on which P-Notes were issued will have to be unwound. This can be done on the immediate expiry day or before December '20.

This move by SEBI is disruptive. As of April '17, P-Notes issued against derivatives had a notional value of ₹40,165 crore, which is 24% of the total notional value of all outstanding P-Notes. So, all naked positions will be unwound as early as possible.

IN A NUTSHELL

Although SEBI is trying to discourage the use of P-Notes in India, it does not want to repel genuine foreign investors.

With the aim to encourage FPIs to invest directly, SEBI has come out with a consultation paper on easing entry norms for FPIs. SEBI proposes to expand eligible jurisdictions for registration of FPIs.

The regulator also proposes to rationalize eligibility criteria for existing FPIs. SEBI also proposes to simplify regulatory requirements for FPIs. With some relaxations in the pipeline, many foreign investors will shun the P-Notes route and register themselves as FPIs with SEB**I.**

Foreign Portfolio Investors (FPI)

In 2014, the old Foreign Institutional Investors (FII) regime was replaced by a new Foreign Portfolio Investors (FPI) regulation. The new FPI regulations harmonized various available routes for investments in India. It simplified operational and regulatory requirements for foreign investors.

Formerly, FIIs were given three years time to move to the new regulation. According to one report, at the end of May, there were 7,807 foreign portfolio investors (FPIs) and 974 FIIs were yet to move to the new regulation. Depending on the risk profile of the foreign investor, FPIs were divided into three categories. All these categories need different levels of compliance.

Category I FPIs typically include foreign central banks, sovereign wealth funds and government agencies.
Category II FPIs include banks, asset management companies and investment managers.
Category III FPIs are typically hedge fund - a class of investors with onerous compliance requirements to meet.

Now, with the consultation paper on easing entry norms in the public domain, some leeway is proposed for category 1 and 2 FPIs in terms of compliance and eligibility criteria, helping more foreign players to register themselves as FPIs with SEBI.



A MIGHTY FEW

Only the strongest will survive the onslaught of the changes taking place in the real estate sector in India

A flurry of developments has led to a significant rise in share prices of real estate companies. From the 52-week low of 1,162, the BSE Real Estate Index has risen 83% to current levels of about 2,100, also a 52-week high, leading to a spurt in valuations of the sector.

The Real Estate Stock Index is trading at close to 52 times its price to earnings. The price to earnings ratio may not be a good indicator at this point in time considering that many companies have depressed earnings or are reporting losses.

Even on the basis of the price to book value, the index is trading at 1.1 times, with a large part of the valuations being covered. Moreover, in the light of the fact that there is huge diversion in the nature of the business and earnings profile of individual companies, it would not be fair to generalize the valuations.

The reason behind this is that still there are many companies that are thriving and have strong earnings visibility, which will only support the sector further owing to the slew of reforms undertaken by the government in the recent past.

WHY IS THE MARKET CHEERING

The reforms initiated by the government have lifted investor sentiments. The Real Estate Regulation & Development Act, 2016 (RERA), which allows companies to issue REITs, and the implementation of the Goods and Services Tax (GST) are among the few things being lauded by the markets.

The sector used to be plagued by lack of transparency and poor corporate governance in the past. However, the implementation of RERA and the establishment of a separate regulator with stringent norms about execution, protection of buyers' rights and new reporting standards have buoyed the sector as investors seem to be more confident than before.

RERA, which has become applicable from April this year, has many provisions that safeguard buyers' interests. Issues such as project delays, payments, charges, etc are well taken care of in RERA.

Importantly, this empowers organized players or serious players with transparent operations. Players with weak balance sheets or those that largely relied on malpractices will find it difficult to execute projects under the new guidelines.

The cash conversion cycle will expand, adding to the woes of weaker players, witnessing higher working capital requirements.

Besides, demonetisation has hammered black money and closed some of the loopholes in the system that were enjoyed by developers.

GST: ADDING TO TRANSPARENCY

In addition to RERA, the implementation of GST will ease taxation woes of real estate companies. Currently, the industry incurs Value Added Tax (VAT) as well as service tax.

Apart from these taxes, realty developers also end up paying taxes on procumbent of materials and other services, which constitute about 25% of the total cost.

Following the implementation of GST, there will be a unique tax, and credit will be available to developers on tax that have already been incurred on procurements by the developers.

Thankfully, buyers who had been waiting on the sidelines for quite some time, have started coming back. Lower real estate prices, end of black money transactions and dropping interest rates have led to growing interest of home buyers.

In the last one year, home loan rates have fallen by almost 200 basis points to about 8.5% currently. It's a big boost in terms of savings and improving affordability.

As far as interest rates are concerned, on a ₹30 lakh home loan for a tenure of 20 years, a 200 basis points reduction in interest rate is equal to a reduction of ₹3,916 in equated monthly installment (EMI), which is close to ₹47,000 a year.

Moreover, the government has announced several initiatives including interest rates subsidy for affordable housing. This has improved the outlook on the affordable housing segment, which is expected to grow relatively higher, thus benefiting companies that have large exposure to affordable housing.

BENEFITS TO ONLY A FEW

Meanwhile, this will only help a few realty players. A large number of real estate companies will spend a lot of time and money on realigning themselves with regulatory requirements and new policies, putting pressure on their cash flows, which might even compel them to sell assets at relatively lower prices.

This would also mean increase in unsold inventory and supply in the near term, putting pressure on real estate prices. In fact, over the last two years this has been a key trend in the real estate market.

Real estate prices in key markets are already facing pressure with many

developers liquidating their inventories to improve cash flows to support their business requirements.

WHAT IS IN THE PRICE?

Real estate stocks have attracted investors' attention. But this rally has also lifted share prices of many unusual names. While the fundamentals might be changing for the better, the companies which are relatively better in terms of strong balance sheets, cash flows and have a strong position in the minds of consumers will be the first to benefit from the reforms measures.

Realty companies that are sitting on huge debt and lacking enough cash flows will continue to find it difficult to take advantage of the revival. The new policies and regulatory compulsions will require upfront money for the execution of real estate projects and further extend working capital requirements for the project and companies.

The companies that are experiencing a huge shortage of working capital and are sitting on huge debt will be forced to cut prices and sell properties. This is precisely the reason why good players will become stronger as marginal players will find it difficult to sustain.

Marginal players will be forced to sell assets, while stronger players will be able to buy assets at distressed prices to capitalize on the demand. And since the inventory is being liquidated, pricing pressure will strain marginal players, further extending their deleveraging cycle and eroding profitability of these companies. In many cases, the equity value of these assets have already eroded because of debt in their books.

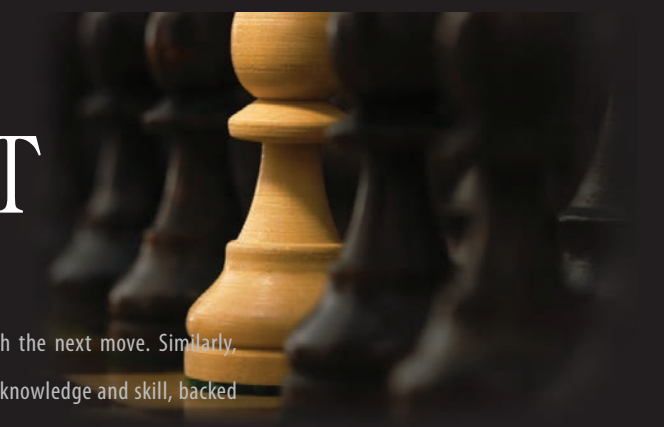
In this backdrop it is imperative to stay with quality real estate companies with strong balance sheets. One big trap could be buying turnaround stories in the real estate space in the hope of revival without much focus on balance sheets.

In many cases companies have lost huge capital. Even their ability to repair balance sheets and survive in the long run has eroded completely. Even if they survive, they will require huge capital infusion in the form of equity and debt.

Raising equity and debt in the current market is highly difficult as the market has turned risk averse to the real estate sector. In some cases, problems are so deep that even if capital is infused, these realty companies might have to go through a long cycle before they can actually reward their shareholder**S.**

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A LONG-LASTING BOND

Perpetual bonds have found takers among a section of rich investors because the product fetches better returns than bank fixed deposits

Private and public sector banks have found a new way to raise capital in a tight credit environment - perpetual bonds.

In the last one year, various banks have launched perpetual bonds. These capital-seeking public sector bonds have sought issuance of additional tier-1 (AT-1) bonds to raise capital. In fact, by launching perpetual bonds banks can raise capital in compliance with Basel III norms.

Perpetual bonds have been successful as coupons for such bonds are higher as compared to other debt products by 2% to 4%. But what exactly is a perpetual bond? It is a simple financial instrument that comes with no maturity date.

For the issuer of these bonds, these become quasi-equity, something they need not repay as there is no maturity date. On the other hand, the investor or the bond holder will get a fixed interest every year. Since the bonds have no maturity, the investor has to exit through secondary debt market in case of need for money.

IDBI Bank, Axis Bank, Yes Bank, State Bank of India (SBI), HDFC Bank, ICICI Bank and Bank of Maharashtra, among others have launched perpetual bonds in the past few months.

Retail investors wanting to invest in these bonds will have to buy them through intermediaries in secondary wholesale debt market of the National Stock Exchange (NSE) or the Bombay Stock Exchange (BSE).

High Networth Individuals (HNIs) are drawn more towards perpetual bonds rather than small retail investors as they have high minimum

investment (each perpetual bond has a face value of ₹10 lakh), which sometimes is too high for retail investors to shell out.

For example, HDFC Bank, which had launched its perpetual bond in May this year and collected around ₹8,000 crore, required huge sums from investors as they could subscribe to minimum applications, that is 5 to 10 bonds (₹50 lakh to ₹1 crore).

Though interest rates might not be quite high as these bonds give returns in the range of 8% to 10%, their endless maturity has the potential to make significant capital gains in a scenario when interest rates are likely to move downwards.

In the past, few perpetual bonds have given capital gains. However, most perpetual bonds have a call option, which gives the issuer the right to redeem them. The first call date is usually after five to ten years of the issue date.

Investors should also remember that liquidity is a major issue with perpetual bonds, though trading volumes have seen some improvement over the last few months and might improve further due to huge demand for this product. The daily volumes are less than 150 bonds to 200 bonds and many series don't see any trading on some days.

These bonds present an attractive investment opportunity for investors seeking high yields at a time when bank deposits do not appear to be a favourable investment avenue. Interest earned on perpetual bonds is taxable as per an individual's income slab suggested by the Income-tax Act.

In tax-free bonds, the interest is tax-free. On a post-tax basis, most perpetual bonds match tax-free bonds in terms of interest payment.

This article details the advantages and disadvantages of perpetual bonds, and how investors can invest in them.

IN FOCUS

The Reserve Bank of India (RBI) recently revised the guidelines related to coupon servicing or interest repayment by banks. Earlier, repayment could be done from profits or revenue reserves of banks.

But growing losses at some banks have been a concern. New guidelines state that if current year's profits and revenue reserves are not sufficient, banks can use the statutory and other reserves to make the required payments on these bonds.

Also, as discussed earlier, perpetual bonds are tier-I capital and boost the capital adequacy ratio of banks. Perpetual bonds work for a lifetime. They are irredeemable fixed deposits, with bond holders getting fixed interest every year.

Due to interest rate volatility, issuers of such bonds fix a call option, which could be activated after 5 or 10 years, giving an exit to the investors. The usual investors in these bonds are provident funds and lead managers to the issue who subscribe in bulk and sell them to HNIs.

More and more institutional investors like mutual funds, corporate treasuries and PMS providers are seen opting for perpetual bonds.

Perpetual bonds have found takers among a section of rich investors because the product fetches better returns than bank fixed deposits and also due to a high entry fee.

Also, many investors stayed away because they feared there was a risk that banks could skip interest payment if the losses on account of non-performing assets (NPA) write-offs were huge.

Investors must keep in mind that perpetual bonds are not pure debt instruments. They are more like preference shares of a company. The coupon or the interest is paid only if the issuing bank is profitable.

In case the bank does not make profits, it will skip the coupon and it gets accumulated. And given that banks are facing pressure from non-performing assets, investors must keep in mind the quality of the paper, even if the issuer is a PSU bank.

PROS AND CONS

Like any other financial product, a perpetual bond too has pros and cons attached to it. Advantages being lock-in the high interest rates for longer time frame and option to stay for 5 to 10 years. But on the downside, such investments are technically stuck for ever; one can exit in the secondary market too or in an over-the-counter deal. One has to also check and validate credit quality of the issuer for eternity.

Perpetual bonds may have a call option. It effectively means that the issuer can buy back the bonds when it so desires. So the issuer can exercise the call option if interest rates in the economy drop substantially. In such a case, the issuer will pay back the bond holders and reissue bonds at a lower interest rate.

This will not only bring down interest cost for the company, but also lower interest for investors. Such details are provided in the bond prospectus.

The interest rate offered will also depend on the credit-worthiness of the issuers. Lower the credit quality, higher the interest rate on offer. Therefore, by investing in such

bonds, investors can earn a much higher rate of interest than they would earn from a bank fixed deposit.

However, on the flip side, one has to trust the credit quality of the issuer for eternity. If fundamentals of the company worsen after a few years, investors wouldn't have an easy way out. Even interest income from such perpetual bonds will be taxed.

If you sell in the secondary market before 1 year, any capital gains will be taxed at your marginal income tax rate. If you sell in the secondary market before 1 year, the capital gains will be taxed at flat 10%. There will be no benefit for indexation.

WHAT INVESTORS MUST DO

Even as they have high entry barrier, the minimum denomination size can be as high as ₹10 lakh. This is purely for investors, which has tons of money and who knows the products and wants to stay invested for a longer duration of time.

If you do not seek regular income, there is no point in going for such bonds. If you seek regular income, then these bonds may fit your portfolio. Since the interest is taxable, the greatest benefit will accrue to investors from the lower income tax brackets. However, the minimum denomination size could be a huge deterrent for such investors.

Investors also need to look at different interest rates in perpetual bonds. For example, a bank might announce interest rates of 8.5% per annum. But returns can be different as post-tax yield will be much lower since the interest is taxable. Therefore, before you invest in these perpetual bonds, consider features like rating, liquidity by way of exit through a stock exchange or call option.

Investors can also buy these bonds from the secondary market where the yield is different from the coupon rate. The yield on these bonds depends on the price the investor pays. However, the biggest risk is the default risk. Since instruments are unsecured, theoretically the investor is exposed to default of interest and principal payments by the issuer.

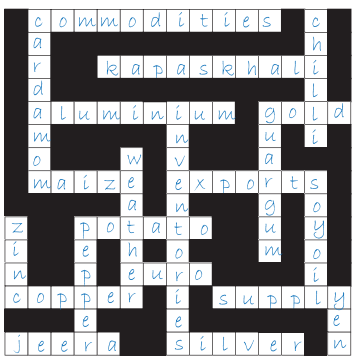
Risks attached to perpetual bonds has reduced but not dissolved completely. Thus, picking the right bank issuing the bond is critical in this segment. A fall in market yields for these bonds may be limited in the near term, but could pick up in the coming months. These are not your simple investment products. This is more for HNI investors and is better accessed through advisers and professionally-managed funds.

IN A NUTSHELL

Yes, there has been a huge demand for perpetual bonds in the past few months and is likely to remain high in the coming months. But retail investors should choose the product carefully before investing. Perpetual bonds are a better alternative to bank fixed deposits, whose rates are set to fall over the next few months as the Reserve Bank of India might cut interest rates going forward.

Investors who need money in the next two to three years should completely opt out of such schemes as it requires a long-term commitment. Such investors can surely look at bank fixed deposits or debt funds of mutual funds depending upon their risk-taking abilit**Y.**

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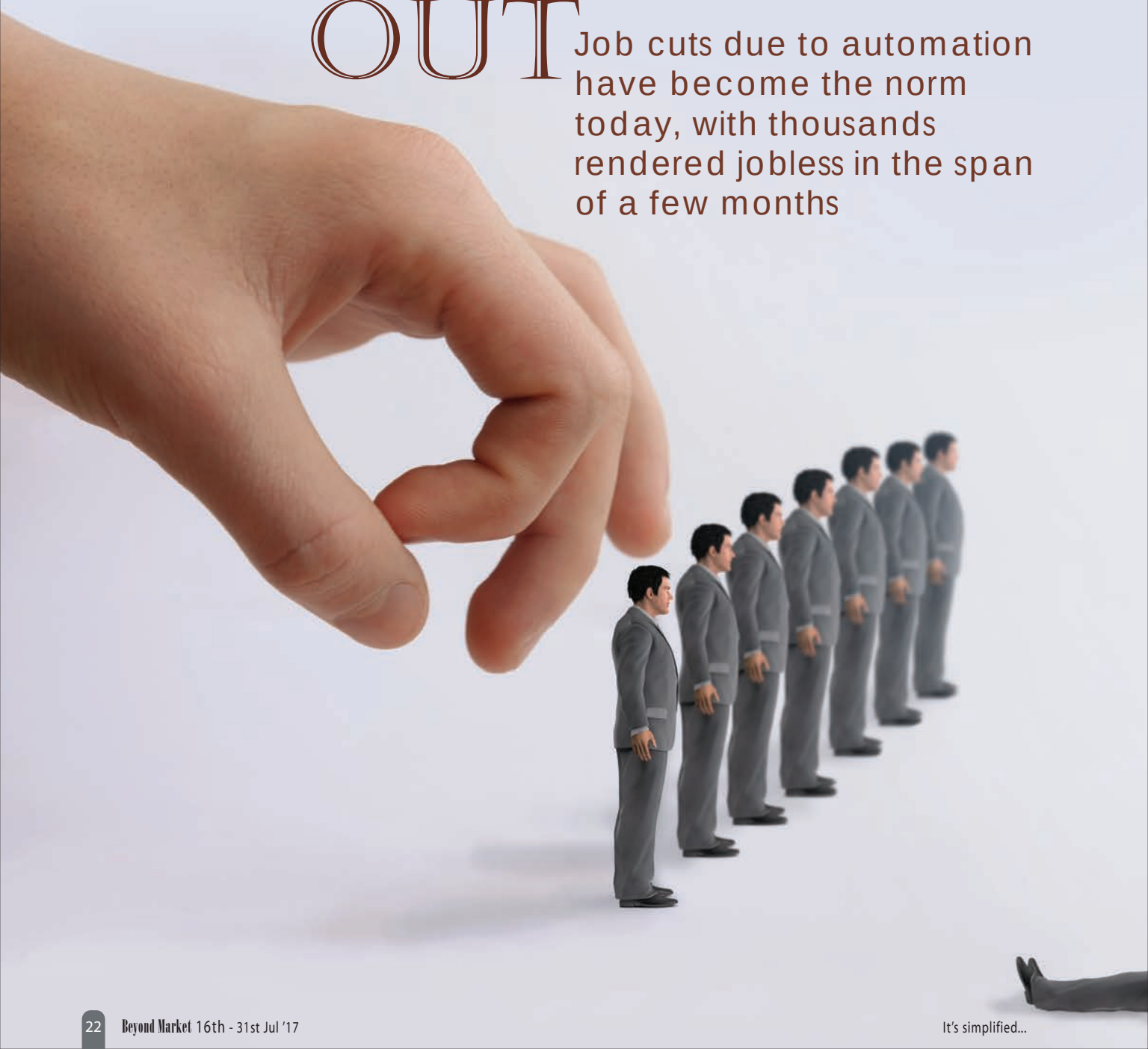
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BOOTED OUT

Job cuts due to automation have become the norm today, with thousands rendered jobless in the span of a few months



Once considered to be the best workforce in the world, the Indian populace faces an unexpected threat of job losses across sectors. The media is full of news of layoffs in one industry or the other. While we have always had job losses, the job loss scenario has never been as threatening as it seems to be now.

In the period between 2009 and 2011, the average job creation in the organized sector, was around 9.5 lakh new jobs per year and the GDP growth was around 8.5%. This was seen as jobless growth. Instead of getting better, job creation has plummeted since then.

In 2015 and 2016, job creation was less than 2 lakh jobs per year, a decline of almost 25% in employment generation. This decline can be seen in all eight organized sectors - textiles, metals, leather, gems & jewellery, IT and BPO, transport, automobiles and handlooms.

When the job creation figure touched 1.5 lakh in 2015, the government decided to review the methodology of gathering data for job creation. The government expanded the scope of organized industries to include key services industries such as education, healthcare and restaurants. This change in methodology for data gathering, improved the job growth figures from 1.55 lakh in 2015 to 2.31 lakh in 2016.

Although it is difficult to estimate employment data for the unorganized sector, experts believe that they can't be moving in the opposite direction as there is always a correlation between the trend in organized and unorganized sectors.

The maximum amount of job losses seems to be happening in the IT/BPO sectors. The IT/BPO industry is considered to be among the highest employment-generating sectors, employing about 4 million people.

If the industry's own estimates are to be believed, then the Indian IT workforce, which was once considered to be the best in the world, lags behind in skills so much so that up to 60% of this workforce is at risk, and might soon become redundant.

Vishal Sikka, CEO of Infosys, acknowledges this and says that more than half of the current workforce in the IT/BPO sector may become redundant in a few years. According to Nasscom President R Chandrashekhar, "A large part of the workforce will have to undergo retraining. Even after that there is no certainty of their absorption. Automation is impacting existing employment not only in IT and BPO but in a host of other manufacturing sectors like automobiles, engineering, etc. We are conducting a joint study with FICCI on this."

The choices that the Indian IT workforce faces are re-skilling or redundancy. "The emphasis…is shifting from scale, which was the primary goal earlier, to skills. Half the current workforce has already been covered by re-skilling. Either they have been re-skilled, or they are in the process of being re-skilled," said Chandrashekhar in a statement.

Automation is the other big reason for job losses in the IT sector. It has taken away many traditional job functions, resulting in job losses.

Industry lobbying body, Assocham believes that Indian IT companies will be forced to displace workforce amidst tightening H-1B visa norms by the US and a rising rupee, leading to lower realizations for software exports. Nearly 86% of the H-1B visas issued for workers in the IT sector go to Indians and this figure is likely to be scaled down to about 60% or even less.

It is not just the US, which is tightening visa norms. Singapore has also reduced visa approvals to Indian IT professionals. On visa issues related to Singapore, R Chandrashekhar says, "This has been lingering for a while but since early-2016, visas are down to a trickle. All Indian companies have received communication on fair consideration, which basically means hiring local people."

Meanwhile, IT companies in India have been retrenching their workforce. As part of its annual appraisal, India's leading IT company, Wipro sacked some 600 employees, and experts believe that this number can go up to 2,000.

It has been guarded in its statement and said, "Wipro undertakes a rigorous performance appraisal process on a regular basis to align its workforce with business objectives, strategic priorities of the company, and client requirements. The performance appraisal may also lead to the separation of some employees from the company and these numbers vary from year to year."

While Wipro may be cautious in its public statement, in an internal conference call, Wipro CEO, Abid Ali Neemuchwala, said that if the company does not grow its revenue, around 10% of employees could be retrenched this year.

It is the same story at IT giant, Infosys. Infosys HR Head, Krishnamurthy Shankar, said the company has "released" 8,000 to 9,000 employees in the last one year due to automation of lower-end jobs.

Reports suggest that Infosys may ask

1,000 of its employees in job level 6 and above to leave and managers have been asked to identify, in terms of performance, the bottom 10% of their reportees.

As part of its performance appraisal review, the US-based IT giant, Cognizant Technology Solutions, has asked several of its Indian employees to tender their resignations. The company also announced voluntary separation programme for Directors, Associate Vice Presidents and Senior Vice Presidents, which could cost some 1,000 executives their jobs.

Cognizant is looking at cutting at least 6,000 jobs or laying off 2.3% of its Indian workforce. French IT services major, Capgemini is said to be letting go of nearly 9,000 people, or nearly 5% of its Indian workforce.

The IT industry is not the sole victim of automation. The World Bank estimates that an average of 57% of jobs in member countries of the Organization for Economic Co-operation and Development (OECD) are at risk because of automation. India is at a higher risk.

Research by human resources (HR) solutions firm, PeopleStrong states that by 2021, one in four job cuts may be from India, which means India will make up around 23% of jobs to be lost to automation globally.

"These job cuts due to automation will not happen immediately, but the impact will become prominent by 2020. The change has started, with companies introducing bots for customer service, managing warehouses, etc.," said Pankaj Bansal, co-founder and chief executive officer of PeopleStrong.

From warehouses to automobile manufacturing, companies are employing robots to do their jobs. For example Gurgaon-based start-up GreyOrange, has developed a robot named Butler, which can work in warehouses. A Butler can work 24 hours a day and when in need of charging the battery, it automatically connects itself to a charging station. According to the company, one Butler can replace more than one human, which can cause 60% to 80% reduction in manpower.

Companies such as Flipkart, DTDC, Mahindra, Delhivery, and Aramex are already using these robots in their warehouses. Similarly, at Honda's new manufacturing plant in Vithalapur, 5 robots bought from ABB are doing jobs. Only 14 people work in this plant, whereas if there were no robots it would have required 72 people to do the same job.

Defending the use of automation, Sunil Kant Munjal, Chairman of Hero Corporate Service Pvt Ltd and Former Joint MD of Hero MotoCorp Ltd says, "As the world gets more competitive, as manufacturing gets more competitive, it will use more automation, robotics, technology."

The telecom sector faces its own unique set of problems. The entry of Reliance Jio into the sector has caused huge revenue losses to telecom companies, forcing them to trim their workforce heavily to keep their operations viable.

In a press briefing, Anil Ambani, Chairman of Reliance Communications, said that the telecom sector is heavily burdened with tax and the Indian government should consider providing a three-year moratorium on increased Goods and Services Tax (GST), which is scheduled for a 1st July roll out.

"Telecom sector has cut 10,000 jobs last year and the stress will further lead to reducing 30,000 to 40,000 jobs more this year," said Ambani.

Anil Ambani is not alone in expressing concern over GST. Madan Sabnavis, Chief Economist at CARE Ratings, says, "With GST, demand for accounting professionals might go up, but that is about it. Media reports state that with GST and removal of octroi, number of toll points will reduce, which means loss of jobs. Our GDP (gross domestic product) growth has been hovering around 6% to 7% and for large job creation, the GDP has to continuously accelerate."

Experts believe job losses will continue until and unless a two-fold approach is taken. The government must increase its focus on training future employees and start creating new jobs. Till then, the spate of bad news is likely to continu**E.**

Beyond Words

Baldwin Envelope

The consumption possibility frontier for a large country, constructed as the envelope formed by moving the foreign offer curve along the country's transformation curve is known as Baldwin Envelope. In international trade, an offer curve shows the quantity of one type of product that an agent will export ("offer") for each quantity of another type of product that it imports. The transformation curve is a graph representing production tradeoffs of an economy given fixed resources. The graph shows the various combinations of amounts of two commodities that an economy can produce (example, number of guns vs kilos of butter) using a fixed amount of each of the factors of production.

SPILLOVER EFFECT

The government ban not only threatens to slow down aggressive growth, but also cut down on the jobs and revenues generated annually by the liquor industry

The Indian liquor market stands at ₹1.46 trillion ($22 billion) by expanding at 9% annually in the last 7 years thus making it the 3rd largest market in the world after the United States and Mexico.

Across all Indian states, it is estimated that the liquor industry directly and indirectly employs millions of people and contributes significantly to the states' revenues, accounting for approximately 25% as per the Reserve Bank of India (RBI) data. This is due to the growth in the middle class population, which has higher spending power, which arises out of high disposable incomes of potential customers.

Also, since the legal drinking age in India varies between 18 and 25 in all states, data shows that the number of potential liquor customers stands at more than 500 million people, making India an exceptionally huge



market for liquor sales.

IMMEDIATE THREAT

However, this rapid growth is now facing a government ban that not only threatens to slow down aggressive growth, but also cut down on the jobs and revenues generated annually by the liquor industry.

On 15th Dec '16, the Supreme Court issued a ban on liquor vends and outlets operating within 500 metres of national and state highways amidst complaints and lobbying by bar and restaurant owners across India.

It later emerged that the ban was vague, in that it did not state whether hotels and restaurants along the highways were affected.

To re-affirm its ban, the Supreme Court on 31st Mar '17 clarified that the ruling also applied to hotels, bars and restaurants within 500 metres of national and state highways.

As it stands, this Supreme Court ruling has ultimately hit the liquor industry in terms of companies that produce, sell and distribute liquor and also the hospitality industry, which consists of hotels and restaurants. It is estimated that the hospitality industry stands to forego revenues of over ₹65,000 crore.

WIDE IMPACT

In the wake of the ban, it is estimated that 15,699 outlets may be affected across all Indian cities and states. Mumbai, for instance, had 500 outlets shut down as the order came in to effect earlier this year.

In April, sales of spirits by Mumbai outlets fell down by 5%. It is evident that relocation of vendor stores directly cuts down convenience for customers when looking to purchase alcohol, which, in turn, prevents potential buyers. Some have also reported low number of walk-in customers after the ban.

As expected, countrywide sales volumes of liquor companies, distillers and distributors have taken a fast hit as vendors, bars and restaurants scramble to comply with the government directive.

Restaurant owners are reported to have seen a drop in sales by up to 90%. Closing down, relocation, and lack of customers has directly led to low sales of alcoholic drinks for listed liquor companies.

Historically, Indian liquor sales have been on a growth curve since 2001. In 2016, the industry recorded an annual growth in the region of 12% to 15%. However, for the first time in more than 15 years the sector recorded a significant slowdown, slowing to 0.4% in the first 9 months of the year ending 31st Mar '17.

The big three Indian distillers - United Spirits, Allied Blenders and Pernod Ricard - posted zero sales growth between April and December. Combined output of these top distillers account for 60% of the Indian liquor market. Slowdown of sales in 2017 has been viewed by industry experts as an extension of the previous year's downward trend in which year-on-year sales fell 2.2%.

Generally, industry data showed that liquor sales dropped to 23.47 million from 24.69 million in comparison with the previous year. In particular, whiskey, which accounts for 60% demand, fell by 1%. Brandy sales volumes also went down by 11%.

This also hit companies' share prices in the stock market. Soon after the ban, major liquor stocks like Radico Khaitan, United Spirits and Globus Spirits took significant nosedives. Amid concerns over the ban, a six-month analysis of liquor stocks shows an average 25% loss of value. Given that 30% to 40% of liquor shops are strategically located along roads and highways, it is further estimated that revenues will be lower than forecasted for breweries and distillery companies.

Though the ban was later changed by a judge bench, from 500 metres to 220 metres, for municipality areas with 20,000 and below population, it has been predicted that the effect is likely to be the same.

Reports on the liquor ban have also suggested that the difficulty that will be encountered in relocation, destocking and restocking by bars and liquor outlets will affect sales in the first quarter of 2018.

Moreover, investors' perception got hit. Investors have for a long time viewed the liquor industry as volatile, given persistent regulatory intervention and the emotive nature of the government when passing laws concerning the sector.

The ban proved that the liquor industry has not only become excessively volatile, but has also a high-risk unguaranteed returns market. Three states for instance, Tamil Nadu, Bihar and Kerala, last year completely banned alcohol consumption while two other states, Madhya Pradesh and Chhattisgarh, have announced plans of liquor ban, adding to the five states that are already dry. Banning alcohol is also fast becoming a high voter attracting move by politicians.

In its ruling of 1st April, the SC clarified that the policy move was driven by official figures of road accident fatalities and injuries. Data from Indian government's Road

Transport And Highways Ministry shows that in 2015 alone 5,01,423 people died from road accidents, up by 4.6% from 2014.

The data indicates that 400 people die every day as a result of road accidents. There is also a probability that the government might introduce a new tax for liquor and cigarettes. This has also weighed down investors' outlook for the industry. Investors have been urged to either shed or halt the purchase of liquor stocks because of uncertainty about the tax move.

That apart, companies have been further forced to use channel de-stocking strategies. In its order, the SC specifically tasked police and municipal authorities to ensure 100% compliance with the ban on alcohol. Advertisements and signage along highways and state roads were also ordered to be removed.

For United Spirits Ltd, the experts have forecasted a gloomy short-term future; United Spirits' revenue forecast and earnings per share have been cut to 5% to 7% and 17% to 28%, respectively, by them.

STRATEGIES TO PROTECT

Meanwhile, some states have found creative ways around the government ban mainly to protect loss in revenues. Any drop in revenues would mean trillions of shillings in lost revenues.

States like Bihar have reported a loss of revenue of up to ₹3,500 crore as a result of liquor ban. According to state government data, states like Madhya Pradesh could lose up to ₹7,500 crore annually as a result of the ban.

Rajasthan and Chandigarh governments have declared some state highways as urban roads thereby effectively dodging the ban. Some governments like Bengal have defiantly issued in-shop licences, which effectively allows bars and restaurants to sell alcoholic drinks.

These moves support a theory by a section of the market who forecast that the ban will have a big but transitionary effect.

Moreover, destocking, relocating and restocking by bars would negatively affect volumes in the short-term but recover in two or three quarters.

It has also been reported that some states in India have approached the Supreme Court for three-month exemption to allow adjustment of vendors and outlets to the new ban; an extension like this would ideally ensure a smooth transition by vendors and outlets.

OUTLOOK

All in all, it is clear that there is a genuine reason to expect a bearish liquor market at least in the short term. The industry's return to profitability will take time given the complexity of transition in the face of the government ban.

Not less than a third of the outlets selling alcohol are bound to be affected, representing around ₹20,000 crore loss. A huge factor that will determine recovery is how state governments will respond to the ban and how determined the Supreme Court will be in ensuring compliance of its orde**R.**





LOOKING INWARDS

INDIAN COMPANIES ARE EXPERIMENTING WITH DIFFERENT BUSINESS MODELS TO EXPAND THEIR BASE IN RURAL MARKETS

The rural markets are no longer restricted to unknown people and their unknown ideas.

Today, with advancement in technology, rural areas are a sizeable market for corporates and more than just vote banks for political parties given their unwavering loyalty towards products and ideas.

Furthermore, investments in rural markets are increasing and they have become important markets for corporates owing to their increasing awareness among rural dwellers.

Here is a low-down on how the importance of rural markets has grown from the government and private sector and how these entities have planned high investments in rural areas.

INCREASING CORPORATE PRESENCE

According to an Accenture Research report, there has been an increasing tendency among rural consumers to buy or strive for branded and high quality products.

The report highlights better networking among rural consumers and their tendency to proactively seek information through multiple sources to be better informed while making purchase decisions.

One of the important ways by which rural consumers are evolving in terms of their tastes for products is through media and telecommunications, which provide a wide range of information to rural consumers about the utility, aesthetics and features of products. Interestingly, rural consumers have been receptive to buying more branded products.

From corporates' point of view this makes sense given the market size of rural India. It is estimated that there are about 6,50,000 villages in India. These villages are inhabited by close to 850 million consumers.

These consumers make up for around 70% of India's population and contribute around half to the country's Gross Domestic Product (GDP). Given this size, corporates have upped their exposure and presence in rural areas.

Due to this consumption patterns in rural areas are gradually changing to increasingly resemble the consumption patterns of urban areas.

Some of India's largest consumer companies serve one-third of their consumers from rural India.

Owing to a favourable changing consumption trend as well as the potential size of the market, rural India provides a large and attractive investment opportunity for private companies from various sectors.

It is estimated that India's per capita GDP in rural regions has grown at a Compound Annual Growth Rate (CAGR) of 6.2% since the year 2000.

A key sector indicator of how corporates have made inroads into rural markets is Fast Moving Consumer Goods (FMCG).

The market share of leading consumer goods companies is a reflection of how rural markets have become an important contributor to their total revenues.

The rural Fast Moving Consumer Goods (FMCG) market accounts for 40% of the overall FMCG market in India in terms of revenues. Among the leading retailers, Dabur generates over 40% to 45% of its domestic revenue from rural sales alone.

Hindustan Unilever rural revenue accounts for 45% of its overall sales while other companies earn 30% to 35% of their revenues from rural areas. It is estimated that the FMCG sector in rural and semi-urban India is expected to cross US $20 billion-mark by the year 2018 and reach US $100 billion by the year 2025.

Also, India's leading automobile company by revenues Tata Motors has plans to aggressively expand its network with a focus on rural markets in the country.

The company is aiming to more than treble its network to 1,500 over the next three years from 460 now, making it the biggest such expansion by a passenger vehicle maker in the country so far.

Telecom major Bharti Airtel received payments bank licence. Payments banks are expected to expand presence in rural and remote areas of the country, offering limited but critical services like money transfers, loans and deposit collection.

While banks have the knowhow, telecom companies have the network, making it an ideal match. Magma Fincorp, a Kolkata-based non-banking finance company (NBFC) plans to expand its operations in South India, with specific focus on rural and semi-urban markets to help the company grow rapidly.

This increasing interest of corporates in rural areas of the country is due to the high focus of the Reserve Bank of India to make financial inclusion initiative a reality.

Due to this, most corporates foresee a more conducive business environment in rural areas today than before as these players have access to basic and important details of consumers, which would have been a

major concern for them earlier.

In addition to this, due to the government's consistent efforts to link the rural with the urban areas of the country through various initiatives, rural areas have benefited from the rise in the number of choices in terms of products and services.

GOVERNMENT INITIATIVES

The Indian government has planned various initiatives, which focus on two key things - connectivity of rural and urban areas through improvement in infrastructure, and investments in rural areas to improve the quality of life there.

Here are a few important investment initiatives that have been undertaken by the government:

• The government has allocated ₹1,87,223 crore towards rural, agriculture and allied sectors.

• The government has raised allocation to Pradhan Mantri Awas Yojana-Gramin (PMAY-G) from ₹15,000 crore (US $2.25 billion) to ₹23,000 crore (US $3.45 billion) in the year 2017-18 with a target to complete 10 million houses for the houseless by the year 2019.

Also the pace of roads construction under the Pradhan Mantri Gram Sadak Yojana (PMGSY) has been accelerated to 133 km per day as against an average of 73 km per day during the years 2011-14.

• The government's allocation to the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) has been ₹48,000 crore (US $7.2 billion) in the year 2017-18, which is the highest ever allocated amount by it.

• In the Union Budget 2017-18, the government has mentioned that it is on course to achieve cent percent village electrification by 1st May '18.

• The government has sought the approval from the Indian Parliament for an additional expenditure of ₹59,978.29 crore (US $8.9 billion) for a host of nation-building initiatives.

The approved amount will be used to support its rural jobs scheme, building rural infrastructure, urban development and farm insurance.

• The government also has plans to integrate various villages with the country's economic mainstream by purchasing around 80,000 mini-buses, which will connect over 1,25,000 villages to markets and thereby provide access to better job and education prospects.

• Prime Minister Narendra Modi has launched the National Rurban Mission with the aim of enabling cluster-based development and creating smart villages, which will complement the smart cities initiative of the government.

• E-commerce players in the country like Flipkart, Snapdeal, Infibeam and mobile wallet major PayTm have signed a Memorandum of Understanding (MoU) with the government to reach rural areas by connecting with common service centres (CSCs) of the government being set up in villages as part of the 'Digital India' initiative.

• The cabinet has cleared the Pradhan Mantri Krishi Sinchaee Yojana (PMKSY), with a proposed outlay of ₹50,000 crore (US $7.5 billion) spread over a period of five years starting from 2015-16.

The Pradhan Mantri Krishi Sinchaee Yojana aims to provide irrigation to every village in India by converging various ongoing irrigation schemes into a single focused irrigation programme in the country.

• The government aims to spend ₹75,600 crore (US $11.34 billion) to supply electricity through separate feeders for agricultural and domestic consumption in rural areas.

This initiative is aimed at improving the efficiency of electricity distribution, thereby providing uninterrupted power supply to rural regions of India.

Given these robust investment initiatives by the Indian government and the private sector, it is evident that in the coming five to ten years the contribution of rural consumers to the revenues of corporates in India and the GDP of the country is expected to be too significant to be ignored.

Industry experts believe that just as in urban India, consumers from rural areas too are expected to adopt online platforms to make purchases over time and enhance consumption on the digital platform.

Rural areas of India are also covered well by telecommunication companies in the area of basic Internet services, computers as well as smartphones.

Today, through various social media and communication and other interactive and varied purposes applications such as Whatsapp, Amazon and Facebook, among others, rural consumers are connected with the latest developments and trends not only in urban areas but also across the world.

Owing to these various facts and figures, industry experts are of the opinion that the annual real income per household in rural India is expected to rise drastically**Y.**

Different sportswear companies are trying to tap the opportunity offered by this segment in India

PUMPED UP

Driven by the increasing population and wealth, rising urbanization and the changing lifestyles in the country, an increasing amount of Indian consumers are becoming health conscious and adding new health and wellness routines to their hectic lifestyles. Over the past few years India has rapidly caught up with the global fashion and fitness trend.

With increasing focus on yoga and gym in the country, from 2015 to 2016, the Indian sportswear market grew 22%, outpacing the segment's global increase of 7%. By 2020, it is expected to grow an additional 12% compound annual growth rate with sales expected to reach $8 billion, according to a Euromonitor report.

Further, the government's backing was one of the catalysts to initiate the fitness movement that started about three years ago. Making use of subsidies, local councils started



focusing on fitness accessibility by making public jogging tracks, gyms and swimming pools.

A mainstream interest in yoga has also been reignited, following Indian Prime Minister Narendra Modi's declaration of 21st June as International Yoga Day in 2014 - resulting in millions of people now practising the country's 5,000 year-old discipline. The buzz around India's two 2016 Rio de Janeiro Olympic medals also helped push fitness onto the public agenda.

Not surprising different fashion brands, sportswear companies are trying to tap the opportunity.

German sportswear firm Puma is very bullish about the Indian market and expects categories such as women's products, running and sport style range to drive future growth.

"We are going to be very bullish about the Indian market. Prime driver of growth for Puma going forward will be new innovations and launches. Category wise, we are extremely excited about the women's products, running and sport style products," Puma India Managing Director Abhishek Ganguly said.

Online retailer Myntra recently kicked off a category-focused campaign showcasing its depth and range of sports apparel and footwear. The fashion major focused on showcasing apparel, footwear and accessories for sports enthusiasts.

Myntra introduced key features like Shop by Sport and Shoe Finder technology that enable customers to shop for exactly what they want by filtering products as per their specific requirements. The platform has also added a feature called 'assisted shopping' where customers can dial in and speak to a support expert who will guide the customer through the shopping experience.

Gunjan Soni, CMO and Head - International Brands Business, Myntra said, "Sportswear has been growing at 45% year-on-year and is one of the largest categories on Myntra. A unique attribute for this category is need for advice and keeping this in mind we have added some features to assist customers while shopping. We have also created a specialized sports store on the Myntra app to cater to the unique needs of customers and we are seeking to drive awareness for these offerings through this campaign."

Similarly, SSIPL, a well-known name in the footwear manufacturing and retailing industry, launched "Sports Station", a chain of multi-brand sports stores. Sports Station endeavours to bring a plethora of international sports brands, offering an assortment of options in sports shoes, accessories and equipment, under one roof.

Its portfolio includes renowned sportswear brands like Nike, Asics, Adidas, Reebok, Puma, Skechers, Converse, Crocs, Salomon and Lotto, along with its in-house brand Mmojah. Sports Station also showcases specialty brands like Speedo and Wildcraft at its stores.

The SSIPL Group has two decades of experience in retailing of International Sports Brands. In fact, it can be credited for launching the brand 'Nike' in India.

Besides retailing, the company has also been engaged in manufacturing footwear for several international sports brands like Nike, Puma, Bata and Lotto.

Alongside, the company is also engaged in licensing/distribution of Lotto and Nike fitness equipment in India. SSIPL is also a prominent retail partner with other international brands like Levi's, United Colors of Benetton, Lotto and Clarks.

Pooja K Sood, Business Head, Sports Station, said, "Sports Station is positioned as a Sports Specialty Brand Hub which aims towards providing an elevated service and retail experience to our customers. The signature Lime Punch colour renders a unique sporty and athletic feel at the stores in line with its positioning. We are currently operating 45 stores across India, with presence in most of the major cities."

Experts feel there are many factors at play for this growing demand of sportswear. Rising incomes and discretionary expenditure in urban India have allowed people to focus increasingly on health and wellness, as well as rising awareness of lifestyle diseases. The proliferation of international brands represented by sports and Bollywood stars has kept sportswear in the public eye, fuelling this drive as well.

Meanwhile, running, cycling and team sports are amongst India's fastest trending exercises. The number of gyms in the country is projected to rise 7% year-on-year till 2020 — and the rise of social media in the country has shifted consumer perception of what is now considered to be 'body-beautiful'.

A growing number of consumers, both female and male are emulating the daily fitness routines and sportswear purchases of Bollywood stars and famous athletes.

With these social, cultural and market shifts continuing in the years to come, India is gearing up for its biggest sporting boom to date. This makes the country's sportswear sector

increasingly attractive to a host of local and international brands.

RISING URBAN POPULATION

While India's total population has increased 2.5 times in the last five decades, the country's urban population has increased nearly five times, which is twice the percentage increase of the total population.

It is also estimated that by 2020, about 35% of India's population will be urban. This implies that more people will come to dwell in urban areas, where exposure to better branding, organized retail, and heightened consumerism is a norm. Hence, the casual and sportswear categories will witness an increase in both value and volume as the consumer base widens.

Surprising social and cultural shifts, though it has an exceptionally high number of underweight people among its poorest classes, India also has an obesity problem among the more affluent. In 2014, it was the fifth most obese country amongst men and jumped to the third rank for women — with over 20 million of them being obese, according to a medical journal.

India is set to become the world's youngest country with 64% of its population in the working age group by 2020, and for many of them beauty standards have radically changed from those of past generations.

In the past, people were not as conscious about their looks as the youth today who are also more careful about what they eat. In fact, being overweight used to be celebrated as looking good because it was seen as prosperous, experts said.

Driving the sportswear trend further into the masses are Indian pop culture icons, who are becoming self-proclaimed spokespersons for the movement. Bollywood is an integral part of Indian households and everyone looks up to Bollywood celebrities and the trends they follow.

When they come out and tell their followers to have a much better and healthier lifestyle, people listen and try to follow the trend. Last year several Bollywood actors have voiced the importance of a healthy lifestyle and looking fit.

At present around 80% of India's sportswear market is dominated by the "Big Four" global players Adidas, Reebok, Nike and Puma, with others such as Under Armour, Fila and Lotto, domestic multi-brand sportswear retailers like Planet Sports and Royal Sporting House, and emerging local players, collectively battling for the remaining 20%.

NEW PLAYERS ENTER THE RACE

Still, popular Indian sportswear labels like Wildcraft India, Future Lifestyle and HRX are finding difficulty penetrating a market that is becoming increasingly crowded.

Domestic players have only now started looking at the growing trend in this space, and international players have a big head start. The opportunity for domestic players is to dive into the masses by leveraging affordable price points to consumers in tier II and tier III cities.

However, for brands wanting to compete with established names like Adidas and Reebok, differentiating themselves by making products accessible to markets outside of the country's urban centres, might not be enough in today's online culture, where Indian e-commerce players like Amazon India, Flipkart, Jabong and Myntra act as brand middlemen.

SPORTS AND ACTIVEWEAR

This category is dominated by the men's market, with the women's market showing positive signs of accelerated growth. Overall, the growth of this segment's is the result of an increase in income levels as well as growing health consciousness among all sections of people.

Many Indians, especially those living in urban areas, are joining gymnasiums and engaging in physical exercises to stay fit. There has also been a greater interest in sports among the urban population.

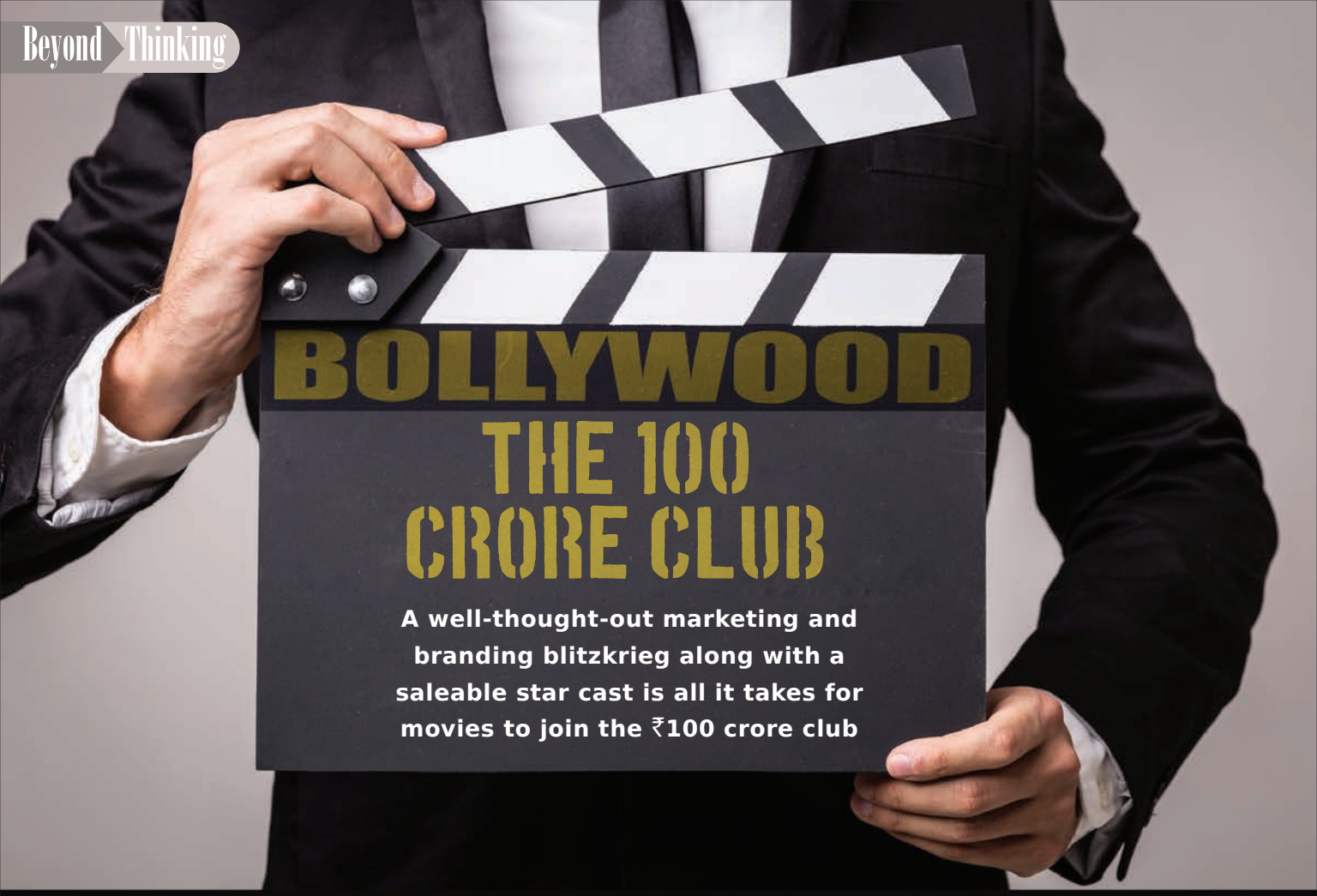
This, combined with the need of today's consumers to be aspirational and quality conscious, had led to the category increasing in both value and volume, and brands continuing to remain important.

On an average, consumers are not highly specific about the perfect attire for casual physical activities such as walking or jogging. For more serious activities like gymming, yoga, and various sports, they prefer to wear specific sportswear.

Therefore, innovations and value addition by apparel makers for such clothes have the potential to translate into higher price premiums. The presence of international sportswear brands in India has also instigated the growth of this segment.

The Indian casual and sportswear market has evolved significantly over the last couple of years. Between years 2015 and 2016, sportswear in metros and tier II and tier III cities grew close to 80%.

The footwear category grew 100% for metros and tier II cities and there's also a strong demand from tier III cities, which grew significantly by over 110% during this perio**D.**



A well-thought-out marketing and branding blitzkrieg along with a saleable star cast is all it takes for movies to join the ₹100 crore club

In the past decade, the concept of a ₹100 crore film has emerged and has become one of the key benchmarks of a successful star.

Filmstars derive importance when their movies make ₹100 crore as soon as they are released and the stardom of the superstar remains unchallenged and undisputed when his film takes little time to cross ₹100 crore at the box office.

So, how did this juggernaut of ₹100 crore club come to be appreciated by the industry and the audience? Here is a low-down on this.

THE BASICS

In the good old days of Hindi cinema, films were a medium of unadulterated entertainment. People dreamt and Hindi cinema chose their dreams and created a stupendous narrative around their imaginations.

Due to slow progress in technological advancement, films took longer to make. On an average, films would be made in a span of one to two years. Interestingly, films also ran for a longer period.

The concept of Diamond Jubilee and Golden Jubilee had huge acceptance. These films which ran for that long seemed to have genuine viewer interest. People stood in queues to watch a film more than twice. They appreciated what was shown on the big screen since they connected with it. Going to a cinema hall was an event that was planned meticulously, and was craved, desired and coveted by them.

To go back into the past one can realise that films were hardly a numbers game. The element of greed for numbers and proving a point through box office collections was never a tradition in Hindi cinema.

Some statistics around this could help you understand. The first Indian film to cross ₹100 crore worldwide was the 1982 Bollywood film *Disco Dancer*. Babbar Subhash directed the film. Famous Urdu writer and Hindi film dialogue writer Rahi Masoom Raza wrote the film. And it was Mithun Chakraborty who delivered this smash hit. The film recorded over ₹90 crore grossed only at the Soviet

box office itself.

On the domestic front, *Hum Aapke Hain Kaun* released in 1994 became the first Hindi film to record ₹100 crore at the box office. This was the time when cable television had made audiences almost captive at home and this film brought audiences back to the theatres.

As regards regional cinema, the first South Indian film to gross over ₹100 crore worldwide was 2007 Rajinikanth starring Tamil film *Sivaji*. The first Telugu film to make ₹100 crore was the 2009 film *Magadheera*. S.S Rajamouli directed the film.

In May '16, *Sairat* become the first Marathi film to gross over ₹100 crore (US $16 million) worldwide.

In 2016, *Pulimurugan* became the first Malayalam film to enter the club.

This shows that ₹100 crore is a recent phenomenon, which was hardly a criterion to gauge the success of a film in the past.

IN TODAY'S TIMES

Today, a hit film is manufactured rather than created. A well-thought out marketing and branding blitzkrieg is unleashed by the experts before the release of a film. This has a lot to do with the way watching cinema in theatres has changed.

Earlier films with little-known stars, but with better story would have an audience. Today, familiarity of an actor is a key to bring in audience to the theatre. Though this was also the crucial reason in the past, but it has become the norm in present times.

There are a few reasons for this trend. One, many Hindi films have uninteresting plots and on the whole they are bad. A handful of Hindi filmmakers entertain people in the true sense of the word and another lot disappoints them.

Currently, it is only the familiarity of a star and past choices of films that make the audience curious about watching a film. This means that on every Ramazan in a year, the fans of superstar Salman Khan are ready for a dashing, engaging and entertaining narrative from him. And most often he delivers that to them.

When a star comes on board a film, it ensures two possibilities. One, the presence of a huge audience in theatres is guaranteed. Two, since the presence of audience in theatres is assured, multiplexes increase ticket prices to such an extent that films deliver far superior box office collections in a span of few days.

It is estimated that leading multiplexes such as PVR and Inox Leisure have been increasing their ticket prices in the range of 5% to 15% in the past five to six years.

Another major reason for rising ₹100 crore collections at the box office is the increasing presence of multiplexes in non-metros. Rising business from non-metros and lack of economically viable and strategic locations in metros have fuelled the recent acquisitions or inorganic expansions in the multiplex industry.

One of the big-ticket acquisition deals began with Inox Leisure acquiring Fame India, followed by PVR acquiring Cinemax and in recent times Carnival Films acquiring Reliance MediaWorks' Big Cinemas and a slew of other cinemas in Madhya Pradesh.

There are three main reasons for increasing acquisitions in the multiplex industry. First, in the past few years the pace of mall construction in metros has come down. Malls provide a sound business model for multiplexes as they get an established set-up on a rental model.

Second, it is difficult to find a property, which is strategically located to yield good revenues in the already high-priced real estate market in metros. It should be noted that the cost per screen for multiplexes has zoomed up and is in the range of ₹2 crore to ₹6 crore in 2014 from ₹1.75 crore to ₹4 crore in 2009.

These factors have played a crucial role in PVR's acquisition of Cinemax cinemas. Besides, doing business in non-metros or tier-II and tier-III cities has become remunerative for multiplexes too, which has triggered acquisitions in the industry.

In the last five years ending 2014, the share of box office collections of non-metros has gone up in the range of 32% to 46% from 20% to 52% in the year 2009.

Interestingly, the break-even-to-being-profitable time of screens of multiplexes has remained the same for metros and non-metros. This is in the range of 4 years to 5 years. But the cost of setting up screens in non-metros has hugely fuelled expansions in non-metros.

Analysts point out that in tier-II and tier-III cities, multiplexes fit well as one of the most preferred out-of-home entertainment options. Audiences have realized this.

Multiplexes offer good ambience at the right price. Things such as using air coolers instead of air conditioners in non-metros have ensured that costs of multiplexes do not go up and viewers' experience too does not suffer. Due to this, today, multiplexes are clocking marginally higher occupancy rates in non-metros than in

metros across India.

Also, over 50% of screen expansions of multiplexes are transpiring in non-metros. This expansion in non-metros has been triggered due to the adoption of cost-effective digital prints, which have helped simultaneous releases across geographies and also boosted revenues from non-metros.

As per estimates, there are over 100 cities with population ranging from 1.5 lakh to 2.5 lakh. Of these, only 20 cities may have good quality cinemas.

It should be noted that these non-metros have a higher population than metros.

People are realising the importance of ambience and safety, which multiplexes provide. Experts point out that in the coming years, non-metros will fuel growth of the multiplex industry.

Given these notable factors, there is a high possibility of a film generating ₹100 crore at the box office. But it would not be a certain formula to manufacture a ₹100 crore film.

The key thing that most producers are not paying heed to is the declining quality of stories in Hindi cinema.

Even *Tubelight* that was released on Ramazan Eid failed to ensure a blockbuster for a superstar like Salman Khan. Audiences were disappointed with the story and distributors suffered huge losses.

This is also why a film like *Baahubali*, starring Prabhas, Anushka Shetty and Tamannaah, with its amazing story struck gold at the box office in India and around the worl**D.**



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PROGRAMMED FOR A BETTER FUTURE

Robo-advisory seems to be the future of wealth management

Financial planning and investing is often perceived by small investors to be tedious, difficult and cumbersome. Therefore, they tend to procrastinate till such time they are compelled into decision-making to satisfy their immediate needs such as saving income tax.

Due to a genuine lack of interest, there is a general belief that this job is best left to the experts who understand it.

Here lies the heart of the problem. While wealthy investors and high net worth individuals (HNIs) tend to have dedicated personal advisors to take care of their investment needs, whether or not in an unbiased manner is questionable, small savers are a neglected lot.

Personal finance advisors find it uneconomical to service them, and the agents who service them, more often than not, try to maximize their own earnings, rather than work in the interest of the investors.

Thus, despite wanting to start financial planning early on, not many get around to doing it simply because they don't know what to do or how to do it and are wary of dealing with agents on account of the dubious reputation that precedes them. It is this yawning gap that robo-advisors are trying to plug in and make a difference in the investing world.

This brings us to the basic question, what is robo-advisory? It is an algorithm driven web-based and/or mobile platform that provides customized advice and chalks out an investment plan without any kind of human intervention.

In layman's term, it is using



technology to provide advisory services to customers, instantly, and at a low cost. Based on the 2016 report by Tracxn, a data analytics company, currently there are 35 robo-advisory firms in India at various stages of development.

The breath of the products and services offered by robo-advisory firms can differ with some focusing on particular asset classes (Scripbox-mutual funds), while others having all asset classes under their gamut (ArthaYantra).

The approach also differs. A firm like BigDecisions.com focuses on goal-based investing like retirement and child's education. Another one like ICICI Direct, focuses on complete financial planning, which includes expense management, cash flow management, tax planning, loans and credit cards.

Some others like FundsIndia offer a blend i.e. technology coupled with some element of the human touch.

So to say, Robo advisory is not a completely novel concept. Personal finance advisors have always had access to systems that chalk out investment plans, which are, in turn, relayed to customers.

It's just that customers typically do not have direct access to this data and personal finance advisors do not service mass market. Why is there so much buzz around robo-advisory? What will it bring to the table that will make financial planning and investing not only accessible but lucrative to the masses?

INSTANT AND UNBIASED ADVICE AT LOW COST

The advice provided by robo-advisory firms is instantaneous and intuitive being an online platform. Robo advisors are not driven by any sales target and are also not speculative, so the advice will be purely dependent on the quality of inputs provided and not by any hidden agenda.

In addition to this, since human element is out of the equation, it tends to be much cheaper than the services that are offered by traditional financial advisors.

Historical evidence indicates that investors who invest directly in mutual funds through the online platform provided by these companies tend to have returns, which can be higher than 1% over the medium to long term as compared to traditional investments made through an agent/ personal financial advisor.

TRANSPARENCY

Investors will have clarity on what is the cost associated with using a particular platform. They will also have access to their portfolios, real-time anywhere, which eases the process of tracking the investments and their returns.

PORTFOLIO REBALANCING

On account of volatility in asset classes, it can take just a month or a few months for a well-balanced portfolio to become unsuitable to an investor. Through constant online monitoring, robo-advisors will ensure that investors are advised to change their portfolios based on changing market conditions, thereby ensuring alignment to investment objectives, thus rebalancing their portfolios.

Does this spell doom for personal finance advisors? Should we expect robo-advisory to become the de facto choice for investors in the future? It is unlikely to be an 'either or' scenario as there is enough room for both to co-exist based on how under-penetrated the market is on one hand and how evolved wealthy investors are on the other hand.

Robo-advisory is likely to be a game changer for small investors as well as emerging affluent investors who have historically been outside the net of personal financial advisors. For the first time, they will have easy access to unbiased tailor-made professional advice and at a low cost.

All they need to do is chalk out their requirements, goals and needs and the online platform will provide them with an investment plan, then execute, and monitor it too.

On the other hand, while robo-advisory firms do boast about tailor-made solutions for investors, there is always a limit to customization.

The output is based on limited number of risk profiles (it is a standard response tool) and it may be unable to satisfy requirements of customers with sophisticated needs and risk appetites. Personal investment needs evolve over time, and a traditional adviser would act as a better guide for such investors.

With so many robo-advisory firms flourishing, the question arises, can you randomly select any platform? How do the various platforms stack up against each other? It is too early to judge any platform today on performance as it is yet to go through market cycles. How well the algorithm has been developed will determine the winner.

But in the interim, the selection will be dependent on what you're looking for. As discussed earlier, some firms provide everything under one umbrella while others specialize in particular asset classes. Your individual need rather than

performance alone will determine your selection.

A decade ago, if we had asked people to trust a computer screen for investment advice, practically nobody would have paid any heed to it, and would have brushed the idea aside without any consideration as yet another fad.

But in an age where we are harnessing the power of technology, whether it is in banking or in the car industry, coupled with rapid Internet (digital) penetration, robo-advisory has the potential to disrupt traditional bastions of highly personalized wealth management businesses.

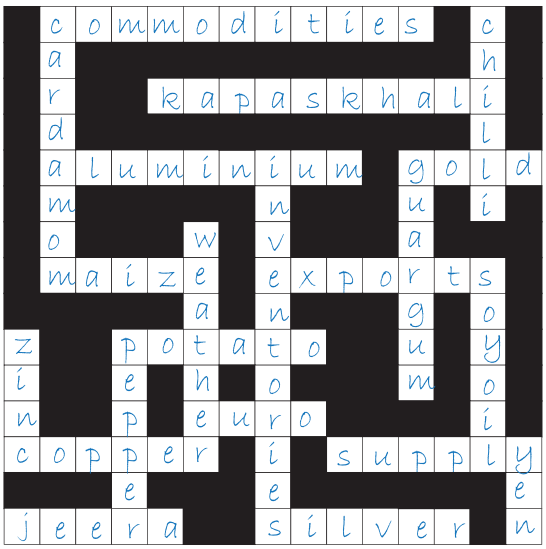
Investors are already comfortable using an online platform to fulfill their needs such as money transfer, payment of bills and booking tickets, among other things. Robo-advisory will be just another online platform which will entice small savers to plan their investments because of benefits it brings to the table.

What we need to remember is that, while robo-advisors are there to give financial advice, the quality of the advice to a very large extent will depend on how you define your financial needs/goals. If you are lackadaisical or unclear on that front, even the best platform will fail to be beneficial in any way.

If you are one of those who wants to start investing or are looking at managing your wealth, but don't know how to do it, what better way to start than use a robo-advisor! You will feel empowered with complete control over your investments, mapped out by professional advice and at low costs.

As American investor and philanthropist Warren Buffet, the Oracle of Omaha once said, "We don't have to be smarter than the rest. We have to be more disciplined than the rest." So for those of you sitting on the fence waiting for something to come by, it is time to take the plunge. Carpe Die**M!**

Now, Commodity Trading Is No More A Puzzle.



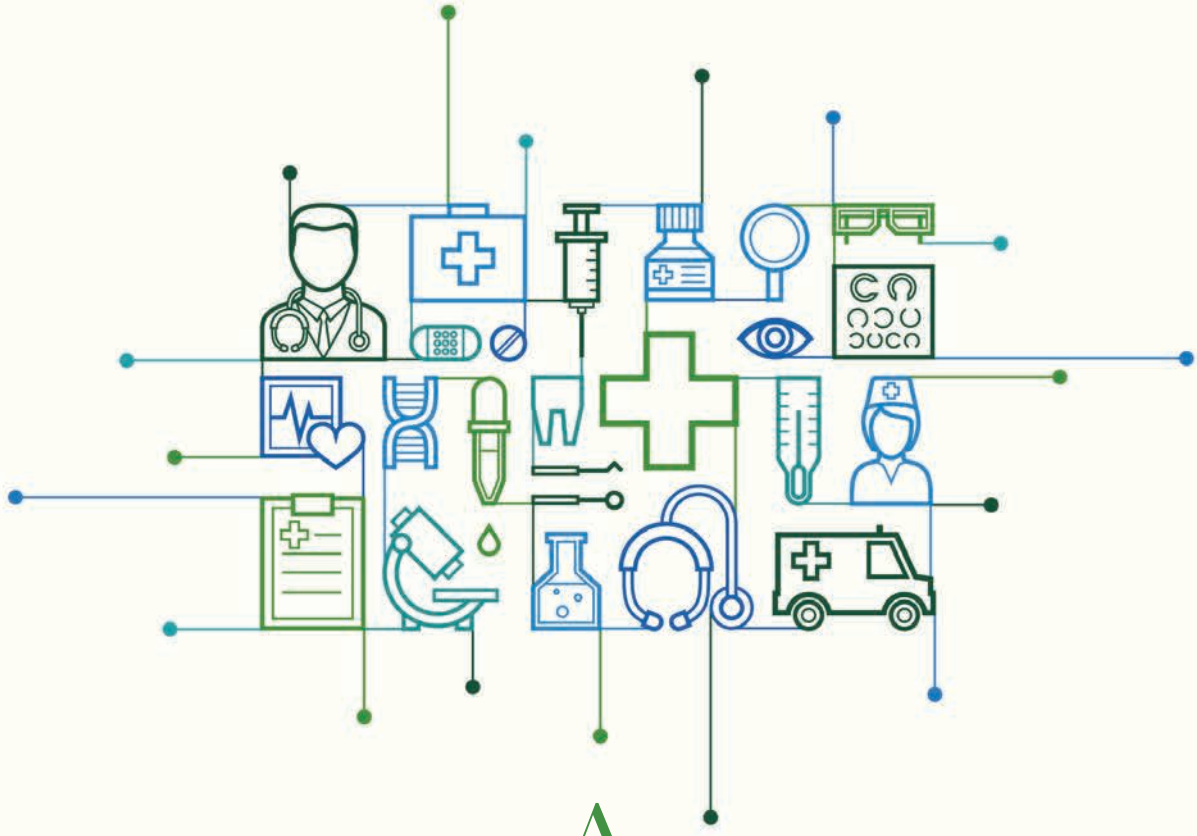
Commodity trading can be confusing especially if one is inexperienced and lacks the necessary skills to trade successfully. At Nirmal Bang, our team of seasoned analysts with years of experience and in-depth knowledge can help you spot the underlying clues and create the investment strategies that best suit your commodity trading requirements.

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A DOSE OF HEALTHCARE

The steep rise in lifestyle-related diseases and high rate of medical inflation are reasons enough for you to buy a health insurance policy

When pure play health insurance players were establishing themselves in India back in 2010, the new entrants put out advertisements providing some statistics on the occurrence of various medical ailments and the cost of treating them.

Although the stats were found to be disturbing enough to discuss with friends, they were not alarming enough to dig deep and initiate action. Fast forward to 2017, and the stats are no longer disturbing but startling as medical inflation is 15% p a in India and disease occurrence has also increased primarily because of lifestyle-related issues.

To give you some perspective, on the cost side, a single valve replacement surgery for heart disease costs between ₹1 lakh and ₹3.5 lakhs, while a kidney transplant (incidentally the 12th leading cause of death in the world) will set you back by ₹4 lakhs.

Still not convinced? Here are some more alarming numbers on the occurrence of diseases. Studies show that over 900 people under the age of 30 succumb to heart disease in India every day and 3 people die from cancer every 2 minutes. And in case this also is not startling enough to push you out of inertia, as you think you have age on your side, then

please read this!

While an event like lung cancer understandably causes an emotional upheaval, providing the best medical care available to the patient becomes the immediate priority for the family. But remember, it comes at a cost.

The question arises what could have the family done to avert this financial stress in times when the emotional strife is already at its peak? The answer is buying a health insurance product. Yes, even for children because you never know when an illness may come calling.

Health insurance, commonly known as mediclaim, is an indemnity based policy, wherein the insurance company will reimburse/pay on an actual basis, the hospitalization expenses based on the insurance cover. In India, health insurance is offered by life insurance companies, general insurance companies and pure play health insurance players.

PRODUCTS AND RIDERS

Start with the basic plan before opting for riders.

Broadly, there are two types of health insurance plans - Individual and Family Floater Plans. An individual plan will cover only one person, while the family floater plan will cover your spouse, children and parents depending on what you opt for.

One policy will take care of the entire family - there will be a single sum assured, which can be utilized by any member of the family up to the coverage amount.

Typically, it is not advisable to bundle your parents in the family floater policy as the premium is determined by the age of the eldest member in the family. Buying a separate plan for parents may work out to be more economical at times.

The first step towards health insurance coverage is buying an indemnity based plan as it is a comprehensive plan.

If you need additional coverage, particularly in the light of various lifestyle-related diseases and the cost of treating them, you can enhance the coverage by buying a critical illness policy as a rider, which covers specific life threatening ailments such as cancer, strokes and kidney failure, among other things.

It is a fixed benefit product, which will pay you the assured amount once the diagnosis of the disease is complete. That is, it is not on an actual basis. It does not restrict the end use of the payout. A critical illness plan does not eliminate the need for an indemnity based insurance plan but complements it. It provides a cushion in the event of diagnosis of an illness, which requires costly treatment.

THE NEED TO START INVESTING EARLY

The general belief is that health insurance is only for people nearing their 40s as they are in the pink of health before this. Why 'waste' money paying premiums, which are extinguished at the end of the coverage year? This cannot be farther from the truth. As in the example stated earlier, health issues can knock at your door anytime.

Age is a key factor that determines the premium. The older you are, higher is the premium cost as you are more prone to illnesses. Previous medical history is another major factor that determines the premium amount. If no prior medical history exists, the premium will automatically be lower.

Most health insurance policies will have a rider called 'waiting period' for pre-existing diseases (as long as 48 months) and also for some other ailments like hernia or osteoporosis. It means that during this period no claims pertaining to these ailments will be accepted.

It is, therefore, imperative to start early so that when you're healthy you will put this clause out of the equation and the policy can be used when you need it the most.

INCENTIVES FOR LEADING A HEALTHY LIFE

Health insurance policies are typically annual policies, which can be renewed every year. In order to encourage the insured, for every claim-free year, the insurance company will reward you with a no-claim bonus, which is typically a fixed percentage of the sum insured at the time of renewal.

In many instances the bonus quantum is 10% of the sum insured up to a maximum of 50% of the sum insured. This, to some extent, takes care of medical inflation. But if you do make a claim on your policy, the bonus sum insured is impacted.

For instance, if you take a policy of ₹1 lakh and have had three claim-free years, at a bonus rate of 10%, the sum assured would increase to ₹1.3 lakhs. But in the fourth year, if you have a claim, the sum assured would be reduced by 10% of the original sum assured i.e. to ₹1.2 lakhs.

GOVERNMENT BOOST

The government has incentivized buying health insurance policies by throwing in tax benefits under section 80D. An annual deduction of ₹25,000 is permissible from taxable income for payment of health insurance

premium for spouse, self and dependent children. An additional deduction of ₹25,000 is available for health insurance premium paid for parents, which increases to ₹30,000 if they are senior citizens.

HEALTH INSURANCE PLAN SPONSORED BY EMPLOYERS

Many employees are covered by group health insurance provided by their employers. No one will contest its benefits, but it does not eliminate the need for a personal health insurance policy on account of multiple reasons.

One, the coverage amount itself may not suffice. Second, the coverage is available till such time you're employed with the employer. So if you switch jobs, you may be stranded without any policy coverage. There have also been instances where the company has decided to eliminate the group health insurance cover.

You do not want to wait till you are much older to buy a personal health cover just because you're covered by your employer simply because the premiums will increase, and there would be a waiting period for pre-existing ailments or some predefined ailments.

IN A NUTSHELL

'Health is wealth' is an old adage, the importance of which cannot be undermined. But with the steep rise in lifestyle-related diseases and medical inflation at 15%, it is important to acknowledge the fact that a single illness has the potential to wipe out your life's savings meant for some other specific purposes.

Thus, one must be ready for health emergencies, which necessitates the purchase of a health insurance policy.

The importance of starting early is magnified by the fact that health insurance players incentivize good health through bonuses, and also because the waiting period clause will be eliminated when you're healthy. Start now to be prepared for any eventuality and to reap the benefits of the health cover. Remember procrastination is the thief of time.



CALL OF THE TIMES

Investors should look beyond traditional investment avenues and opt for other financial products like SIPs and insurance that balance risk and reward in bullish times

Every one wants the best returns from their investments. But very few can actually stomach the volatility that comes with them. In the last one year alone several mutual fund schemes have given 23% to 25% returns. While stock markets have been touching new highs, there are no signs of consolidation. Even debt mutual funds, perceived to be 'less risky' have been giving returns in double digits.

So what is next for investors looking to invest in products with lesser risks? Now is the time for asset allocation of one's portfolios. Investors can decrease their allocation in stocks that have risen fast or in small-cap funds that have given returns in excess of 30% in the last one year.

However, staying away, redeeming or sitting on cash is not the right approach to invest in the markets. One should re-align their portfolio as per the need and sell dud investments.

Investors who do not have insurance products should actively look at buying insurance policies. They should also actively start looking at investing in tax investments under section 80C of the Income-tax Act, and not wait to invest only during the last few days of March.

Also, those investors who do not want to take much risks and want a steady



stream of income, should actively look at investing their money in monthly income plans (MIPs) offered by mutual funds.

Investors wary of investing in risky investments have their reasons for it. Typically in financial investments, the risk profile of an individual is determined by a combination of factors. There are people who like to invest aggressively in equities while there are others who are happy with returns on bank fixed deposits (FDs).

There are times when an individual makes wrong investment choices because he is not aware of his risk tolerance; his/her ability to take risks may be higher or lower than his willingness to do so.

In this article we look at the reasons why investors go in for low-risk options and offer tips on how to make the most of these instruments.

INVEST IN TAX-EFFICIENT INVESTMENTS

Indians are known to be less risk takers and their favorite investment option is bank fixed deposits (FDs). This is the most popular instrument as it is easy to understand and widely available. Also, anyone with a bank account can invest in a bank FD. In fact, investing in an FD does not require paperwork these days thanks to technological advancements.

Though there are many advantages of bank FDs, the biggest drawback is that it is grossly tax inefficient as interest earned is added to your income and taxed at the normal rate.

Investors should gradually move their money from bank fixed deposits to debt funds like liquid funds for urgent purposes and look at short-term debt funds from a short- to medium-term investment horizon.

Although returns from these funds are just a few basis points (typically 2% to 4%) more than the interest earned on bank fixed deposits, the returns are higher if you invest in them for more than three years.

Furthermore, a large number of investors are not even aware of the fact that the interest earned on five year bank fixed deposits, famously referred to as tax-saving deposits, is taxable. Therefore, investors can look at investing in debt funds.

Also, if they want an investment product with low-risk and liquidity, they can invest in ultra short-term debt funds or liquid funds. But those that are willing to take risks and do not mind investing their money for a period of three to five years, they could consider credit opportunities funds or income funds.

For investors in the 30% tax bracket, returns from bank FDs can lower their returns by 1% to 1.5%. On the other hand, gains from debt funds are taxed at 20% after adjusting for inflation.

Salaried individuals can also actively look at the participation in employee provident funds. Others can also invest in tax-free bonds that offer assured returns for the entire term.

They should refrain from putting all their money in long-term deposits. Instead, they should split their money by investing in liquid funds, short-term income funds, tax-free bonds and balanced funds, which offer investment opportunities in equities with lower volatility meaning that after one year the amount is totally tax-free. The advantage of debt funds is that one can withdraw from the debt fund or reinvest the sum at any point without restrictions.

Investors willing to take risks and earn high returns can look at investing in equity-linked savings schemes (ELSS), which are tax-efficient with a lock-in period of three years.

DO NOT STOP EQUITY INVESTMENTS

An investor could be a young employee or a retired senior citizen. No matter the age, the investor needs a proper asset allocation model that offers the right mix of equity and debt funds. These days mutual funds offer certain asset allocation funds that provide investors with a portfolio of a fixed or a variable mix of asset classes depending upon the future outlook of each asset class.

For example, some funds invest in equities when the markets are low or go into cash or invest in debt funds when equity markets are at their peak. The fall or rise in equity markets is decided either by algorithms or by price to equity (P/E) ratio.

Asset-allocation funds are suitable for conservative investors as they help them to diversify and manage risks, which are difficult for most people to do on their own during periods of volatility in the equity markets.

If investors do not want to invest in asset allocation funds, they can look at investing in balanced funds. A balanced fund is the most basic form of an asset-allocation fund. Here, the equity allocation is higher than 65%. Thus, investors can enjoy tax benefits. The remaining 35% is invested in debt papers that can be medium or long-term in nature.

While bank FDs and public provident funds (PPFs) may be safer, they are unable to prevent the erosion of capital caused by inflation. Money needs to grow at a faster rate than inflation for the existing lifestyle.

These are low-yield fixed deposits

and are, therefore, not beneficial for retired senior citizens. They need to have some amount of exposure to equity. A retired person should look at investing at least 20% to 25% of his retirement savings in large-cap MF schemes. If he/she is not comfortable investing in pure equity funds, the investor may opt for balanced funds or asset allocation funds.

Such funds have given returns that have not only beaten inflation but also been low risk when invested from a long-term perspective.

Though conservative funds should be an integral part of an investor's asset allocation as these provide the necessary cushion when markets change, investors should not expect these funds to be best performers at all times, especially in a bull run.

OPT FOR INSURANCE

Even as many people prefer investing in mutual funds and PPF for tax-saving purposes, many people still invest an entire sum of ₹1.5 lakh under section 80C of the Income-tax Act in insurance. However, it is always advisable to have exposure to insurance through term plans and a long-term product like unit linked insurance plans (ULIPs).

Traditional life insurance plans or endowment plans give very low returns. They also force investors to invest for the long term with premiums going out every year. Typically, only half of retail investors stay invested in equity funds for more than two years of the tenure.

The other good point is that the policyholder cannot dip into the corpus before maturity. With equity funds on the other hand, people can redeem their money once they get some appreciation after one year - as it is completely tax-free and spend that money on some vacation or buying expensive gadgets. But with insurance, it is more about discipline.

Gone are the days when insurance used to be pure endowment plans. Now, many insurance companies are coming out with new features on term plans, ULIPs with health cover and individual health plans too, which can get tax exemption for retail investors.

If investors are unwilling to commit money for a longer duration of 15 to 20 years, they can look at investing in single premium insurance plans where they pay once and get coverage for the entire term of the plan.

Being one of the cheapest insurance policies, a term insurance plan allows a 30-year-old policy holder to get a cover of ₹1 crore for ₹5,000 to ₹7,000 per annum. But many think buying a term insurance plan is a waste of money as they do not get any money on maturity. Instead, they get the sum assured only at the time of the death of the insurance holder. But one should start taking a term plan.

DEPENDENCE ON MONTHLY INCOME PLANS (MIPs)

In today's time when the equity markets have gone up significantly, many investors are waiting to enter the markets. There is another set of investors who invest a lump sum in monthly income plans (MIPs) and start getting monthly returns.

MIPs, which are predominantly debt mutual fund schemes, could be an option for investors seeking a steady flow of income as they have given returns between 12% and 15% in the last one year, have low tax liability, are less volatile and the returns have beaten inflation.

MIPs are debt-oriented mutual funds. They invest most of their money in debt instruments like debentures, corporate bonds and government securities. Typically, MIPs have around 80% of their money in debt and the rest in equity and cash.

The income investors earn from an MIP is not limited to the monthly option. They can also choose to receive income on a quarterly, half-yearly or annual basis. But if investors do not want dividend option, they can even go in for growth option too.

However, most investors prefer MIP's with a dividend option as it provides income in the form of dividends. However bear in mind that while the dividend from MIPs is tax-free in the hands of investors, the company has to pay a dividend distribution tax of around 14% on the dividend before it reaches the investor.

Regulations say that dividend can be paid only from surpluses and not from capital investment. If the initial NAV was ₹10 and after a month the NAV rose to ₹10.5, then the dividend can only be given out of this 0.5 and not from the initial capital. However, there is no guarantee of dividends every month.

Conservatives seeking better returns than fixed deposits or insurance policies could look at MIPs as returns are definitely better than these pure debt options.

IN A NUTSHELL

Asset allocation is integral to balance risk and reward. In bullish times, investors should rebalance their portfolios from equity to debt and vice-versa. However, an investor should not shun equities completely at any time. They can invest in equities through systematic investment plans (SIPs) while having an adequate insurance cove**R.**



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BUCKFAST

Buckfast Recommendations

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 Mr Vijai Mantri and 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 4th Jul '17.

SIP returns as on 30th Jun '17. 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

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		1 Year	3 Years	5 Years	7 Years	10 Years	
Lumpsum							
IDFC Classic Equity Fund	41.52	25.30	14.19	16.99	10.91	8.93	1087
Kotak Select Focus Fund	30.55	23.52	18.17	21.76	15.48	-	11042
MOSt Focused Multicap 35 Fund	23.98	29.99	25.27	-	-	-	6785
Principal Growth Fund	129.29	29.02	14.61	21.76	14.10	9.10	467
SCHEME NAME	NAV	Historic SIP Return (%)					AUM (Cr)
		1 Year	3 Years	5 Years	7 Years	10 Years	
SIP							
IDFC Classic Equity Fund	41.52	25.13	17.03	17.03	14.72	12.47	1087
Kotak Select Focus Fund	30.55	22.96	17.49	21.51	19.14	-	11042
MOSt Focused Multicap 35 Fund	23.98	27.59	22.11	-	-	-	6785
Principal Growth Fund	129.29	29.88	18.39	21.31	18.85	15.44	467

Large Cap Funds

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		1 Year	3 Years	5 Years	7 Years	10 Years	
Lumpsum							
Reliance Top 200 Fund	29.52	22.44	13.20	18.48	13.46	-	3170
IDFC Focused Equity Fund	34.48	31.11	11.31	13.76	9.35	10.26	128
Mirae Asset India Opportunities Fund	42.65	24.37	15.85	21.37	16.16	-	3848
MOSt Focused 25 Fund	20.08	25.46	15.91	-	-	-	569
HDFC Top 200 Fund	419.15	21.47	9.39	15.72	11.74	13.11	14588
SCHEME NAME	**NAV**	**Historic SIP Return (%)**					**AUM (Cr)**
		1 Year	**3 Years**	**5 Years**	**7 Years**	**10 Years**	
SIP							
Reliance Top 200 Fund	29.52	25.56	14.27	18.26	16.50	-	3170
IDFC Focused Equity Fund	34.48	38.98	16.26	15.29	12.64	11.47	128
Mirae Asset India Opportunities Fund	42.65	24.92	16.91	20.87	18.84	-	3848
MOSt Focused 25 Fund	20.08	24.49	15.07	-	-	-	569

Mid and Small Cap Funds

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		1 Year	3 Years	5 Years	7 Years	10 Years	
Lumpsum							
IDFC Sterling Equity Fund	48.62	33.05	17.37	21.12	15.81	-	1425
Reliance Small Cap Fund	37.73	36.14	23.94	31.94	-	-	3767
L&T Emerging Businesses Fund	23.84	44.72	24.95	-	-	-	1052
Tata India Consumer Fund	14.47	38.00	-	-	-	-	147
SCHEME NAME	**NAV**	**Historic SIP Return (%)**					**AUM (Cr)**
		1 Year	**3 Years**	**5 Years**	**7 Years**	**10 Years**	
SIP							
IDFC Sterling Equity Fund	48.62	37.28	20.02	22.17	19.47	-	1425
L&T Emerging Businesses Fund	23.84	47.54	30.00	-	-	-	1052
Reliance Small Cap Fund	37.73	35.17	24.47	33.57	-	-	3767
Tata India Consumer Fund	14.47	42.28	-	-	-	-	147

Balanced Funds

SCHEME NAME	NAV	Historic Return (%)				AUM (Cr)
		6 month	1 Year	3 Years	5 Years	
HDFC Prudence Fund	475.88	29.63	21.38	11.19	17.03	24479
Reliance Reg Savings Fund-Balanced Plan	50.59	34.93	19.17	13.78	17.27	6262
ICICI Pru Balanced Fund	117.97	23.47	19.39	14.10	19.24	12600
L&T India Prudence Fund	24.70	35.76	19.60	15.57	19.49	4650

Equity Savings (Arbitrage MIP) Funds

SCHEME NAME	NAV	Historic Return (%)				AUM (Cr)
		6 month	1 Year	3 Years	5 Years	
HDFC Equity Savings Fund	33.41	20.03	18.31	9.88	10.81	1214
ICICI Pru Equity Income Fund	12.27	10.19	11.24	-	-	1888
Reliance Equity Savings Fund	11.91	21.00	12.58	-	-	619
Birla SL Equity Savings Fund	12.66	22.88	13.85	-	-	585

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

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		1 Year	3 Years	5 Years	7 Years	10 Years	
Lumpsum							
HDFC TaxSaver	488.33	24.56	10.04	17.40	12.32	11.91	6387
IDFC Tax Advt(ELSS) Fund	50.24	26.14	16.34	21.47	15.55	-	613
Reliance Tax Saver (ELSS) Fund	58.24	23.40	13.92	22.20	16.67	14.02	8296
MOSt Focused Long Term Fund	16.08	35.74	-	-	-	-	491
Mirae Asset Tax Saver Fund	14.69	34.92	-	-	-	-	409
SCHEME NAME	NAV	Historic SIP Return (%)					AUM (Cr)
		1 Year	3 Years	5 Years	7 Years	10 Years	
SIP							
IDFC Tax Advt(ELSS) Fund	50.24	31.09	17.08	20.56	18.52	-	613
L&T Tax Saver Fund	35.39	27.84	20.08	21.95	18.03	15.25	31
MOSt Focused Long Term Fund	16.08	34.98	-	-	-	-	491
Mirae Asset Tax Saver Fund	14.69	34.33	-	-	-	-	409

Monthly Income Plans

SCHEME NAME	NAV	Historic Return (%)				AUM (Cr)
		3 month	1 Year	3 Years	5 Years	
Birla SL MIP II-Wealth 25	37.40	17.94	16.43	13.90	14.32	1874
HDFC MIP-LTP	42.96	12.33	14.59	10.42	11.71	3782
ICICI Pru MIP 25	37.97	15.74	14.36	11.96	12.37	1331
Kotak MIP	28.90	10.63	13.15	11.24	11.27	283

Income & Dynamic Bond Funds

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		3 month	6 month	1 Year	3 Years	5 Years	
ICICI Pru Long Term Plan	21.11	14.15	6.57	13.91	12.22	12.04	2213
IDFC Dynamic Bond Fund	20.54	7.46	6.62	12.49	10.92	9.84	4247
SBI Dynamic Bond	21.20	11.57	6.75	12.66	10.95	9.40	3030
UTI Dynamic Bond Fund	19.67	9.96	5.99	14.07	10.99	10.75	1499

Accrual Funds

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		3 month	6 month	1 Year	3 Years	5 Years	
Baroda Pioneer Credit Opp Fund	12.83	9.40	9.40	11.26	-	-	599
Birla SL Corp Bond Fund	12.35	11.94	9.57	11.20	-	-	2398
BOI AXA Corporate Credit Spectrum Fund	12.61	11.05	10.52	10.83	-	-	1055
Franklin India Dynamic Accrual Fund	58.19	9.46	9.44	11.07	10.43	9.48	2425
Reliance Corporate Bond Fund	13.46	8.68	7.49	10.81	10.27	-	6155

Short Term Funds

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		1 month	3 month	6 month	1 Year	3 Years	
Birla SL Short Term Fund	63.57	8.22	7.82	6.49	9.13	9.37	18677
Reliance STF	31.45	8.95	7.63	5.98	8.73	8.96	15137
SBI Short Term Debt Fund	19.25	7.71	7.00	6.00	8.71	8.83	8171
ICICI Pru Short Term Plan	34.85	9.13	8.04	6.37	9.84	9.46	8771

Ultra Short Term Funds

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		1 month	3 month	6 month	1 Year	3 Years	
Reliance Money Manager Fund	2282.94	6.93	6.77	6.81	7.70	8.26	17607
DSPBR Ultra Short Term Fund	12.03	7.00	6.57	6.67	7.65	-	3989
IDFC Ultra Short Term Fund	23.46	7.22	7.13	7.39	8.16	8.58	5382
Kotak Low Duration Fund	2020.00	7.24	7.13	7.36	8.47	9.05	6010

Liquid Funds

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		3 month	6 month	1 Year	3 Years	5 Years	
Birla SL Cash Plus	264.97	6.52	6.62	6.88	7.95	8.49	33074
ICICI Pru Money Market Fund	228.18	6.48	6.62	6.89	7.93	8.43	12592
Kotak Floater-ST	2709.16	6.52	6.65	6.93	7.98	8.49	15106
Reliance Liquid-Treasury Plan	4021.35	6.51	6.65	6.91	7.93	8.45	31179

Arbitrage Funds

SCHEME NAME	NAV	Historic Return (%)				AUM (Cr)
		3 month	1 Year	3 Years	5 Years	
Edelweiss Arbitrage Fund	12.37	5.79	6.22	7.24	-	2132
ICICI Pru Equity-Arbitrage Fund	22.05	5.45	6.12	6.96	8.03	8547
IDFC Arbitrage Plus Fund	18.50	4.35	6.26	6.65	7.40	660
Kotak Equity Arbitrage Scheme	23.77	5.72	6.17	6.99	7.86	7022

Buckfast Fundamental Market Model (BFMM) is a asset allocation model, which analyses historical market behaviour taking into consideration various aspects such as fundamental ratios, long-term trends. It aims to reduce volatility in the short to medium-term without compromising the opportunity for long-term wealth creation.

Currently as per BFMM, we suggest 20% allocation to equity and 80% to debt.

Returns as on 4th Jul '17

RETURNS	Investment in Nifty	Buckfast Fundamental Market Model (One time)	Value Addition
Last 1 month	-11.77%	2.73%	14.50%
Last 3 months	3.06%	2.62%	-0.44%
Last 6 months	16.40%	15.09%	-1.31%
Last 1 year	14.36%	12.13%	-2.23%
Last 2 years	6.13%	6.61%	0.48%
Last 3 years	7.64%	7.78%	0.14%
Last 4 years	12.71%	12.82%	0.11%
Last 5 years	12.52%	12.61%	0.09%
Since Aug 2011	9.66%	10.04%	0.38%

TECHNICAL OUTLOOK FOR THE FORTNIGHT

The Indian benchmark index continued its march into a newer orbit as the Nifty ended at record highs, up above 4% since last month. Every week, indices make a new all-time high, indicating that the uptrend is intact.

Small-cap and mid-cap indices have been outperforming, helping indices extend the rally on the upside. Market breadth continues to retain optimism owing to decent buying by FIIs and active participation by DIIs.

The Sensex and the Nifty are at their all-time highs. But the question that needs to be asked is whether the markets will be able to sustain these elevated levels. Technically, as per the Extension Theory, the Nifty is likely to extend this rally towards 100%, that is, 10,380 level (Low-6,825.8, High-8,968.7, Low-7,893.80). On the flip side, 9,800-9,770 will act as strong support levels. Until and unless it stays above 9,800-9,770 levels, the uptrend will be intact.

Overall, the view on the Nifty is positive with 9,800-9,770 as immediate support levels. Any move above the 9,940 level on a closing basis, and upside 10,040/10,380 levels are likely targets. So, a positive bias may be maintained with a trailing stop loss of the 9,800 level.

Momentum indicators - Daily RSI and MACD - are in buy, supporting a short-term view. One should be stock-specific, following the trend with trail stop loss levels till it reverses from trading perspectives.

The Bank Nifty is at an all-time high. The Bank Nifty faces immediate resistance around the 24,100 level on the upside and on a decisive close, expect it to rise to 24,400/24,600 levels. There is an immediate support at 23,700/23,500 levels. The overall technical structure indicates that the view on the Bank Nifty is positive.

On the Nifty Options front for the July series, the highest OI build up is witnessed near 9800 and 9600 Put strikes, whereas on the Call side, it is observed at the 10000 level. The market is likely to remain bullish in July with bouts of selling pressure near resistances.

In the last expiry higher-than-average Rollovers in Nifty (72.97%) and Bank Nifty (68.67%) with positive cost of carry were seen, indicating a positive bias. Fertilizers (85.63% - long rollover), FMCG (86.40% - long rollover) and Banking (82.86% - long rollover) saw much higher rollovers compared to the previous expiry. Select stocks from Banking, Finance, Fertilizers and FMCG sectors are expected to outperform in this expiry.

India VIX, which measures the immediate 30-day volatility in the market, remained in the range of 10-12 in June and early part of July. Going forward, VIX is likely to move higher as it is near its lower levels.

The Put Call Ratio-Open Interest (PCR-OI) for Nifty Options has been in the range of 1.1-1.50 in the month of June and early part of July. It is quoting around 1.50 currently, implying a positive undertone in the Indian stock market.

Going forward, expect the market to remain bullish in July with bouts of selling pressure near resistances. The 9,900 and 10,000 levels are likely to remain strong resistances, while 9,800 and 9,600 levels are likely to see good demand.

OPTIONS STRATEGY
LONG STRADDLE

It can be initiated by 'Buying 1 lot 27JUL 9900 CE (₹75) and Buying 1 lot 27JUL 9900 PE (₹45)'. The net combined premium outflow comes to around 120 points. Keep a Stop Loss of 50 points or ₹3,750 loss. The strategy will generate profit above 10,020 or below 9,780. The maximum profit for the strategy is unlimited. One can book profit on a gain of 100 points or ₹7,500 profi**T.**

Nifty Daily Chart





IMPORTANT JARGON FOR THE FORTNIGHT

RBI's FSR: NPAs OF BANKS MAY RISE FURTHER

The Reserve Bank of India (RBI) released its 15th Financial Stability Report (FSR) on 2nd July. As per FSR, the domestic and global economic outlook remains positive. But bad debt of Indian banks may rise in FY18.

What Is RBI's FSR?

The global financial crisis of 2008 has prompted global regulators to mandate banks to undertake stress tests to see if their risk appetite matches their risk-taking capacity. Financial regulators and central banks in over 60 countries publish FSR bi-annually about the health of their banking, financial and payments systems. In line with this global trend, the RBI has also been publishing FSR bi-annually since 2009.

Broadly, What Does The FSR Intend To Do?

FSR throws light on the risk to the entire financial system. FSR assess the resilience of the financial sector through stress tests. FSR also focuses on emerging issues of systemic importance to the economy. It also outlines regulatory and consumer protection measures taken in the recent past by all financial regulators. Thus, broadly FSR aims to enhance transparency in the system.

Why Is The FSR Widely Tracked By Experts And Markets?

The FSR reviews the nature, magnitude and implications of risks on macro environment. This has direct or indirect bearing on various asset classes. RBI's commentary on macro outlook is important.

What Does FSR Say On The Global Macro Environment?

While the FSR is positive on the global growth scenario, it is worried about elevated geo-political risks and weakening of international institutional mechanisms to deal with them. The RBI is also taking a wait-and-watch approach to assess the rhetoric on protectionism and populism globally.

What Is The Outlook On The Domestic Economy?

FSR is positive on the domestic economy's growth prospects on the back of political stability, positive business sentiment and macroeconomic stability. Growth is expected to be at 7.3% in 2017-18.

Going forward, FSR says, reforms in foreign direct investment, implementation of goods and services tax (GST), and revival in external demand are likely to contribute to a better growth outlook. However, FSR says, for sustainability of higher growth rates, revival in investment demand of private sector is essential.

What Does FSR Say On Fiscal Deficit?

FSR has acknowledged that government's commitment to fiscal discipline had a positive impact on the macroeconomic outlook. But the RBI is worried about fiscal positions of some States and the stretched debt capacities of some state-owned enterprises.

What Is The Outlook On Inflation?

According to FSR, CPI inflation is expected to be in the range of 2% to 3.5% in the first half of the fiscal year and 3.5% to 4.5% in the second half.

What Is The Outlook On The Banking Sector?

FSR has acknowledged that more and more borrowers are relying on sources other than banking like mutual funds and bond market for their borrowing needs.

While the capital position of banks is sound, under the baseline scenario of stress tests, gross non-performing assets (GNPAs) of banks may rise from 9.6% in March '17 to around 10.2% by March '18. This number can worsen if the macroeconomic conditions in the country deteriorate.

So, What Are Other Important Takeaways From The FSR?

The report has highlighted that Indian banks will need higher provisioning from April '18 due to transition to new Indian Accounting Standards (Ind AS). This will lower the profitability of banks.

RE-BASING IIP AND WPI

Recently, the base year for calculating the Index of Industrial Production (IIP) and Wholesale Price Index (WPI) were changed from 2004-05 to 2011-12. IIP gives us an idea about growth or fall in industrial activity in the country. WPI gives us an idea about growth or fall in wholesale inflation in the country. Both are important for policymakers and markets.

Why Change The Base Year For WPI And IIP?

A change is base year for IIP and WPI was needed to capture structural changes in the economy and improve the quality, coverage and representativeness of the data. With the change in the base year, IIP and WPI are now aligned with base years for Consumer Price Index (CPI) and Gross Domestic Product (GDP).

What Are IIP And WPI?

IIP denotes the growth of various sectors of the economy including mining, electricity and manufacturing, while WPI is the price representative of basket of wholesale goods divided into primary articles, fuel and power, and manufactured products.

Who Compiles WPI And IIP?

The office of the Economic Adviser, Department of Industrial Policy & Promotion is entrusted with the task of releasing WPI. Central Statistics Office (CSO), Ministry of Statistics and Programme Implementation releases IIP. These data are released monthly. The series with a new base year has been revised after eight years.

What Is A Base Year?

Base year is nothing but the starting point from when an index is constructed. At that starting point, the index is assigned a value of 100.

Now if the index (it could be a stock market, WPI, CPI, IIP or GDP) goes up to 102, the index is said to have gone up by 2%. Remember, the index can have different components. These components can accordingly be given different weights.

Why Change The Base Year?

Often, economists and analysts complain that the economic data is not in sync with reality on ground. Base years are thus periodically revised to keep data relevant. Even components and weights assigned to those components are changed to reflect the true picture.

So, What Are The Changes In Components For Calculating WPI?

Apart from change in the base year, in the new series of the WPI, the number of items covered is increased from 676 to 697. In all, 199 new items have been added and 146 old items have been dropped. The weight for primary articles has been increased while weights for fuel and power basket have been reduced.

What Are The Changes In Components For Calculating IIP?

IIP in the revised series will continue to represent mining, manufacturing and electricity sectors, but weights for manufacturing sector and mining sector have been increased. Weights for electricity have been pruned. Total item groups covered under the new series has been increased to 407 from 399 earlier.

So, How Does The Data For New IIP Series Appear?

The index of industrial production expanded slower by 1.7% in May, as against expansion of 2.8% in April. Interestingly, the IIP data on new series shows that in none of the months in FY17 did the IIP contract.

If the old series is considered, then the IIP declined in six months - April, July, August, October, December, and February in FY17. Clearly, the industrial production was not as bad as was reflected by the old series.

How Does The Data For New WPI Series Look?

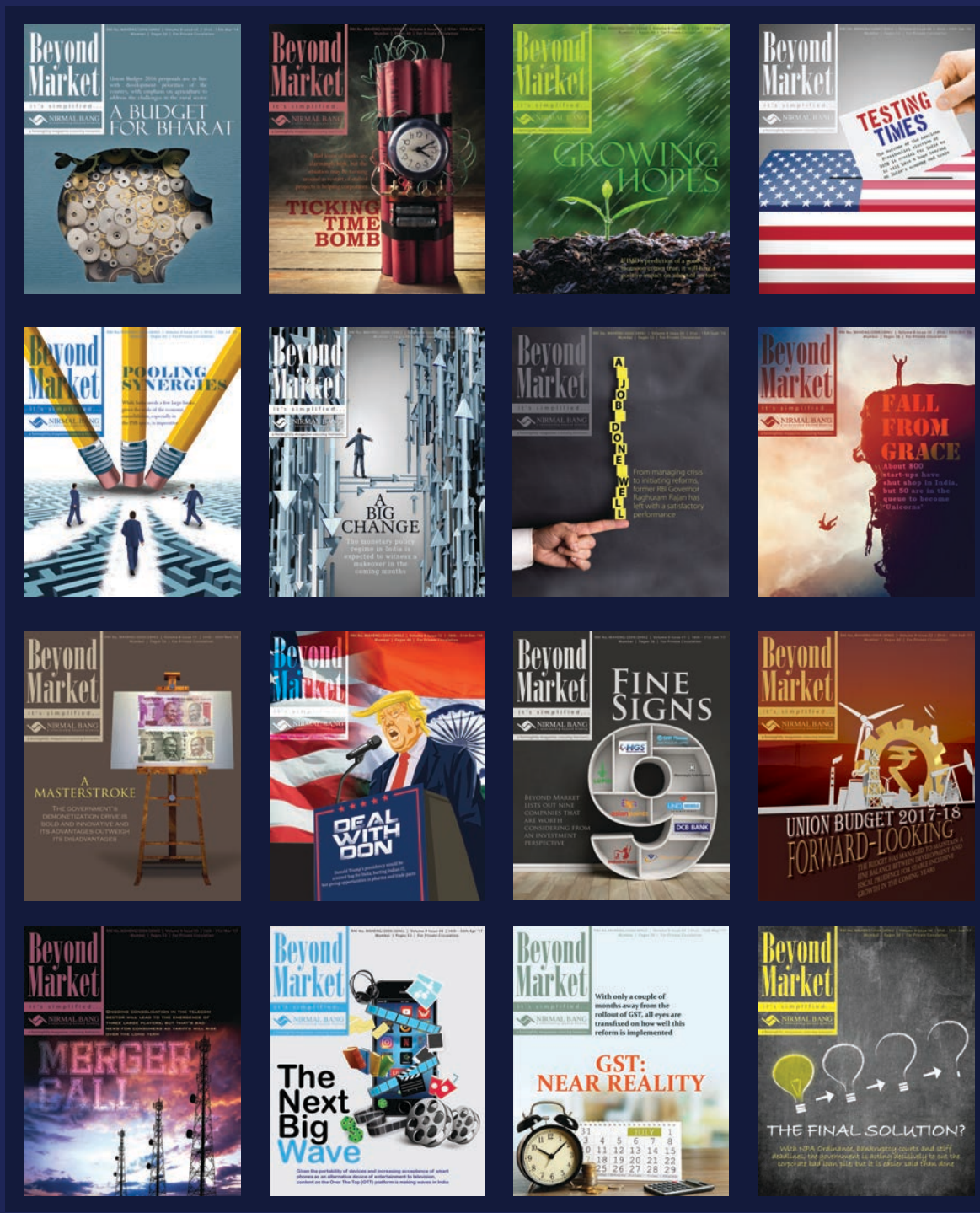
As per the new series, the WPI inflation was at 0.9% in June '17 as compared to 2.17% in May '17 and (-) 0.9% in May '16. Interestingly, as per the new series, the WPI inflation stood at 1.7% in FY17 as compared to 3.7% under the old series.

Clearly, WPI inflation was lower in the economy in FY17 than what was reflected by the old series.

What Does This Mean For GDP Data?

The new series will improve the accuracy of the data. It will also make them comparable to GDP. WPI is used as a deflator for deriving real GDP values from nominal data.

Various components of the IIP are used to derive the GDP numbers. Since WPI is lower and IIP higher as per the new series, there is a greater chance that the GDP might be revised upward**S.**



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