

SUCHETA DALAL ON:

> INCREDIBLE INDIA: WASTED HERITAGE

> MODICARE: TALL CLAIMS, FEW DETAILS

Personal Finance Magazine

16 February-1 March 2018

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SHOULD SEBI CLOSE DOWN CLOSE-ENDED SCHEMES?

STOCKS

DEN Networks | Shriram Transport Finance Company | Apar Industries | Tejas Networks | Kajaria Ceramics | Godrej Properties | Ramkrishna Forgings

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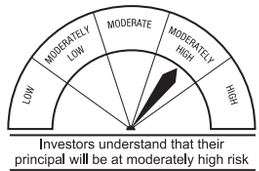
SHORTEST LOCK IN PERIOD AMONG TAX SAVING INSTRUMENTS: Lock in period of only 3 years

GROWTH POTENTIAL: High caliber stocks with the potential to outperform#

THIS OPEN ENDED EQUITY LINKED SAVINGS SCHEME IS SUITABLE FOR INVESTORS WHO ARE SEEKING^: Long-term capital growth with a three-year lock-in; Investment in equity and equity-related securities to form a diversified portfolio. ^Investors should consult their financial advisors if in doubt about whether the product is suitable for them. Investors are advised to consult with their tax advisor before investing. **MUTUAL FUND INVESTMENTS ARE SUBJECT TO MARKET RISKS, READ ALL SCHEME RELATED DOCUMENTS CAREFULLY.**

*Assuming Tax rate of 35.535% (comprising of 30% income tax, 15% surcharge, 2% education cess and 1% secondary and higher education cess). Surcharge rate of 15% is considered assuming the income of investor is above 1 Crore. The above tax exemption is as per Section 80 C of the Income Tax Act, 1961. The tax benefits are as per the current income tax laws and rules. #As per Scheme Information Document of the Scheme, high caliber stocks mean stocks having both value and growth potential.

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Letter *from the* Editor



Time To Close Down Close-ended Schemes?

Little is written about this category of mutual funds (MFs). Collectively, these manage Rs1.60 lakh crore of investors' money, place restriction on access to it and, finally, underperform. We are talking about close-ended MFs. This MF category has been in business for a long time and hasn't offered additional value for locking investors' money for years. Driven by hefty commissions and attractive incentives, distributors and relationship managers have (mis) sold these to investors without, obviously, stating the better alternatives. Clinton Fernandes offers the first detailed analysis of close-ended schemes in the Cover Story. Don't miss this excellent piece of research.

Sucheta's Different Strokes column is about Modicare—the big health insurance initiative that is more likely to help the BJP during elections than give access to quality healthcare to India's poor. Her Crosshairs is on how government organisations are continuing to destroy heritage property and ignore tourism needs even while spending large sums on the Incredible India campaign. SD Israni's Legally Speaking column has an interesting take on how consumers damage a perfectly good case by making puffed-up claims and trying to indulge in forum shopping.

After the Budget, the Indian stock market has swooned. Global markets are sharply down too. Bala's piece comes at an appropriate time. A lot of investors are wondering which stocks to hold and which ones to get rid of. Bala gives a terrific practical lesson on this. Don't miss his 6 pointers to holding, or selling, stocks in a volatile market.

We are happy to note that, after a long gap when he was recovering from a health issue, Dr BM Hegde is back to writing for us. His piece, this time, as usual drives home some hard truths about drugs. We do hope Dr Hegde would be able to write for us in future as well. As always, do keep writing. We love to hear from you; your suggestions and opinions are always welcome.

Debashis Basu ■

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Vijay Kedia: "My Investment Journey so for & what I learnt from my Failures"



Prof Sanjay Bakshi: "What Happens After You Buy a Stock?"



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Dr Vijay Malik	How To Assess the Management Quality before Buying Stocks	Rs.700
Ayush & Pratyush Mittal	How To Effectively Use screener.in	Rs.700
Vijay Kedia	My Investment Journey so for & what I learnt from my Failures	Rs.700
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Readers' Responses

ENRICHING READERS' LIVES

This is with regard to "NRI (non-resident Indians) Investors: Your way through investment options and a maze of rules" by Raj Pradhan (*Moneylife*, 19 January-1 February 2018). *Moneylife* team and Jigar Patel, have nailed 'NRI Investing', in the Cover Story.

Since 2014, I have been struggling to get a handle on this—for my son's benefit. Thanks to the enlightening *Moneylife* coverage which, I must say, is only getting better, I am now better informed. *Moneylife* has covered every aspect.

Please keep up the exploration, in this constantly challenging universe. *Moneylife* team can continue to enrich readers' lives, for sure.

Tony Fernandes, *by email*



CONCERNS REGARDING LINKING BANK ACCOUNTS WITH AADHAAR

I think that there is no issue in giving the Aadhaar card number for opening a bank account. However, why link all our bank accounts with the Aadhaar payment systems? Also, why is the government creating apps like BHIM (Bharat Interface for Money), etc, by which anyone can make payments by-passing the current bank payment systems?

Who will be responsible if there is an issue and fraudulent payments are made? Who is accountable in such an event?

Why is the government forcing us to use its apps? Government should not get into banking. They are not experts in it. They should leave it to the bankers. Government should stick to governing the country.

If the government still wants to do so, it can open its own banks; and customers, who are impressed with their systems, are then free to open accounts in them and use whatever applications these banks give to their customers. But it should be only through their banks.

Why should the government intervene for allowing access to all bank

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NRI Investment in Mutual Fund

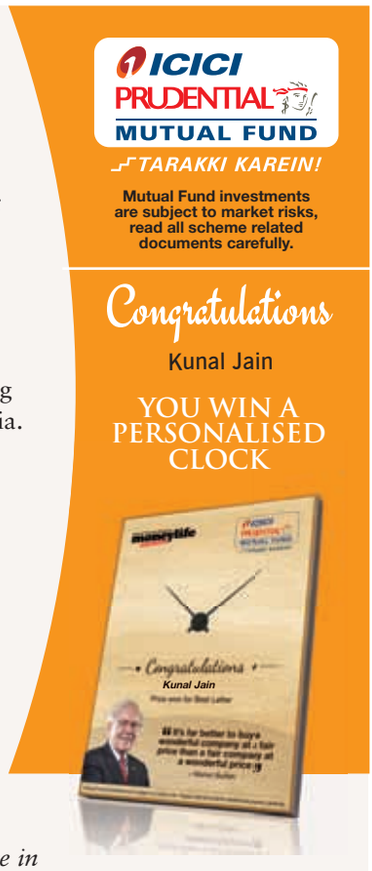
Thanks for the wonderful work of *Moneylife* team. This time, the Cover Story was no surprise to me; such research is mostly done by the *Moneylife* team in India. I agree with Raj Pradhan, as financial advisers, bankers and even CAs (chartered accountants) do not know the tax implications of NRIs investing in different avenues in India. I would like to focus more on investments in equity mutual fund (MF) schemes by US/Canada-based NRIs.

According to my experience so far, they (US/Canada-based NRIs) should not invest in equity MF schemes. It will force them to pay tax on notional gains every year; also, preparing the FBAR (foreign bank account report) and other tax filing forms every year is a huge pain. Equity MF schemes come under PFIC (passive foreign investment company).

As US/Canada-based NRIs are liable to pay tax in US/Canada, it is recommended that they invest directly in stocks in India or through PMS (portfolio management services) of similar AMCs (asset management companies) whose schemes they want to invest in. AMCs like HDFC, Reliance, Aditya Birla, Kotak, SBI, UTI, Sundaram, L&T and others are accepting inflows from US/Canada-based NRIs, once all disclosures are provided. However, the list is different for US and Canada. Also, NRIs should consult their CPAs (certified public accountant) or tax expert before investing in any product in India.

Kunal Jain, ***by email***

Raj Pradhan replies: *Appreciate your feedback! Yes, tax compliance is an issue. We will write about FBAR in another Cover Story. Investment in both, equity and debt MF schemes, are considered as PFIC. We have covered these in the article. We do not suggest PMS as a route for investors. Also, it may be considered PFIC for US resident/person.*



accounts without anyone actually asking for this? Many senior citizens are not comfortable doing payments digitally. Forget them, most educated people do not understand what is going on when they are in digital mode as there is no proof of what they have done in writing.

If I am not mistaken, the BHIM system does not even have a two-step authentication system. Recently, there have been several frauds committed with the insecure Aadhaar system. There have been reports of data theft, etc. The present NEFT (National Electronic Funds Transfer), IMPS (Immediate Payment Service) and netbanking systems of banks are just as great and quite secure. If customers want it, they should specifically put in a signed request (not digitally) to have such access. They should not be forced to make all their accounts accessible to the Aadhaar payment systems. It is very dangerous to have the Aadhaar payment systems linked to all the bank accounts.

If *Moneylife* finds these points relevant, it should please take up cudgels on behalf of the common folks or give these points to people fighting the thoughtless legislation of linking all bank accounts with the Aadhaar payment systems. Truth should always prevail and ultimately does.

Sathya Kiran, ***by email***

WHY MODERNISE AT THE COST OF DATA THEFT?

This is with regard to "Hurray! Grievances of Financial Consumers Have All Been Resolved" (*Moneylife*, 2-15 February 2018). The Updation of client details in the 'Central KYC (Know Your Customer) records Registry (CKYCR) System', requires compulsory Aadhaar and e-mail; why? Under which law is it mandatory to have e-mail for share purchases and sales through brokers? Does a citizen have no right to buy and sell shares without e-mail? Why can't a person,

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who has a few shares bought in the past, continue his/her purchase of shares now in the same way, as without e-mail and mobile number, CKYCR fails? By such a rule, citizens are being deprived of the rights to buy and sell shares.

Similarly, persons not having taxable income limits are being deprived from filing their income-tax returns, if they do not have e-mail and mobile; it is funny! On the one hand, government wishes to widen its tax base; and, on the other hand, it deprives many such persons who wish to file their income-tax returns for not having e-mail addresses and mobile numbers.

Once Internet is opened or used, all private information goes in public domain. Those who do not wish to take such (even 0.0000001%) risk to their privacy, why is the government forcing them indirectly to use Internet and mobile? No anti-piracy software is safe in the long run. Though hacking is a cyber-crime, hackers continue to take such risk and, daily, thousands of cyber-crimes are being reported in the media. The only way to be 100% safe is to not use Internet and mobile phone with net connections. Since Aadhaar is useless without mobile and Internet, it is not safe, and life becomes vulnerable—risky.

Under the Constitution, is it mandatory that every person must have a mobile? How can the government force any citizen to have Aadhaar? There is no doubt that Aadhaar fails all the tests of a democratic set-up, including the basic right to personal space. May God save innocent citizens from Aadhaar clutches!

Last, but not the least, at nationalised banks' Aadhaar Centres, the charges are Rs30 and there is no receipt issued even for payment made. For updation, separate cost is involved and one has to get the Aadhaar card printed at some other place like cyber-cafes. The agent says he has an arrangement to provide laminated Aadhaar card at Rs100 without any receipt for it. Why is it that Aadhaar Centres cannot give the services of getting printed Aadhaar too and that too without extra cost to citizens?

M Kumar, ***by email***

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I, Debashis Basu, hereby declare that the particulars given are true to the best of my knowledge and belief.
Dated: 1 March 2018

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Government Proposes To Start an FoF for Debt and Equity ETF for PSUs

Pointing to amendments in the Budget, DIPAM (Department of Investment and Public Asset Management) secretary Neeraj Gupta said that his team would work on a fund of funds (FoF) that will tap into the base of 60 million mutual fund investors and enable them to invest in exchange-traded funds (ETFs) such as Bharat 22.



While debt funds do not enjoy capital gains tax benefits, the facility is available for equity-oriented funds, where investors have to pay a concessional 10% tax for holdings over 12 months or 15% in case they stay invested for less than the cut-off period.

"A debt ETF product will be considered and, based on the borrowing requirement, we will be able to stagger the fund raising and help the PSUs (public sector undertakings) raise more money at lower rates," Mr Gupta said, after the finance minister Arun Jaitley talked about nudging large corporate houses to tap the corporate bond market.

The government also hopes to revive the strategic sale programme of PSUs during the current financial year, including the much-talked about sale of loss-making Air India. "Strategic sale has been restarted after a gap of 12 years. So, in the initial phases, drawing up a professional and robust process is bound to take time. All transactions are progressing," Mr Gupta said.

Portfolio Management Services Division of ICICI Pru Shuts Down Two Small-cap Schemes

India's largest fund house, ICICI Prudential Asset Management, is shutting down two schemes run by its portfolio management services division—a unit that caters to rich investors. The schemes, which focus on small-cap stocks, seem to have run out of choice as a stunning rally has pushed stocks to lofty levels that have made it tough for fund managers to extend their outperformance in this category.



ICICI Prudential PMS's PIPE and Small Cap Portfolio Series I, managed by Aditya Sood, are in the process of returning Rs700 crore to investors in the schemes, a practice prevalent in the developed markets but unheard of in emerging markets like India. The schemes have been marketed under separate names but the portfolio and investment styles of both are the same.

SEBI Directs Mutual Funds To Disclose TER on a Daily Basis

SEBI has asked fund houses to prominently disclose, on a daily basis, the total expense ratio (TER) of all schemes under a separate head, 'total expense ratio', on their website. To increase transparency, the regulator has asked asset management companies (AMCs) to communicate to investors of the scheme through email or SMS any change or increase in the base TER charged to any scheme at least three working days prior to effecting such change. Additionally, AMCs have also been told to provide the exact web links of the heads under which TER is disclosed on their website. The rule is applicable immediately for any new scheme and for all existing schemes from 1 March 2018.

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Your Money

REAL ESTATE

Government Announces Setting Up of Dedicated Affordable Housing Fund

Finance minister, Arun Jaitley, said in his Budget speech that the government will "establish a dedicated Affordable Housing Fund (AHF) in National Housing Bank, funded from priority sector lending shortfall and fully serviced bonds authorised by the Government of India." The National Housing Bank Act is being amended to transfer its equity from the Reserve Bank of India to the government, he added.



The Budget also proposed that real sale value of immovable property would be considered while taxing income from capital gains if the circle rate value does not exceed 5% of the consideration.

"Currently, while taxing income from capital gains, business profits and other sources in respect of transactions in immovable property, the consideration or circle rate value, whichever is higher, is adopted and the difference is counted as income both in the hands of the purchaser and seller. Sometimes, this variation can occur in respect of different properties in the same area because of a variety of factors, including the shape of the plot and location. In order to minimise hardship in real estate transaction, I propose to provide that no adjustment shall be made in a case where the circle rate value does not exceed 5% of the consideration," Mr Jaitley said.

Supreme Court: Home-buyers' Interest Comes before Lending Banks'

The Supreme Court expressed concern over the interests of home-buyers being neglected in insolvency proceedings against real estate companies. It slammed the interim resolution professional (IRP) in the case against Amrapali group for harassing flat-buyers and demanding the rest of the money due to the builder, according to a report in the *Times of India*. A bench of Justices Arun Mishra and Amitava Roy said that home-buyers' stake could not be compromised to protect the interests of creditor banks in insolvency proceedings; it charged the IRP with taking the side of Amrapali group and neglecting the grievances of flat-buyers. The IRP has taken over the affairs of Amrapali after National Company Law Tribunal (NCLT) admitted that the insolvency proceedings have been initiated by Bank of Baroda against the firm on 4 September 2017.

Bombay High Court Orders Auction of Developer Shirish Dixit's Property for Cheating Buyers

According to a complaint filed by a tenant of a building, Sunil Soi (Dadar, Mumbai), developer Shirish Dixit offered to re-do the three-storey building in 2008. Mr Dixit told the tenants that he had purchased the building, Sahnaz, at Dadar (East) from its original landlord for redevelopment. There were 21 tenants in the building then. Dixit entered into an agreement with all and promised to complete the redevelopment work in 34 months. In 2009, the tenants shifted to an alternate accommodation after which Dixit demolished the structure. For a while, Mr Dixit paid rent to the tenants to cover their costs of the alternate accommodation but, subsequently, stopped. In 2015, the tenants learnt that Mr Dixit had mortgaged the land to a moneylender and availed a Rs10.4-crore loan. The tenants then approached the court and filed a case against Mr Dixit in



April 2016 with the economic offences wing (EOW). Finally, the complaint has reached Bombay High Court.

The High Court, in its order, said Mr Dixit never intended to complete the redevelopment work but was only interested in cheating innocent tenants. The Court appointed a commissioner and instructed Mr Dixit to hand over the original documents of his flat in Matunga (East) and land near Mahabaleshwar to him. The Court asked the commissioner to auction the properties. Mr Dixit was present in Court during the hearing and told the Court that he had no objection to the auctioning of his property and the use of the money to complete the redevelopment project.

The Court order stated: "The Court is observing such dishonest conduct in one out of every ten matters before it. Thus, hundreds of innocent members of the public who put in their life savings in the hope of being owners of their flat have been deprived not only of their ownership but also their life savings by such dishonest conduct of the developers."

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TAX

Senior Citizens' Benefits from Union Budget 2018

Finance Minister Arun Jaitley, in the Union Budget for FY19 announced several tax sops for Senior Citizens (age 60-80 years). These were - tax exemption on any income earned from Bank & Post office deposits up to Rs50,000 per year under new Section 80TTB. But, deductions of Rs10,000 under old Section 80TTA will not be allowed. TDS won't be deducted by the bank on yearly interest from FDs up to Rs50,000 u/Sec 194A. Standard Deduction of Rs40,000 per year for salaried tax-payers. Deduction limit for health insurance premium and/or medical expenditure increased from Rs30,000 to Rs50,000 u/Sec 80D. Deduction limit for medical expenditure for critical illness increased from Rs60,000 to Rs1 lakh u/Sec 80DDB. Lump-sum investment limit in annuity scheme Pradhan Mantri Vaya Vandana Yojana increased from Rs7.50 lakh to Rs15 lakh, in line with limit under Senior Citizen Savings Scheme. This should ease the tax burden of senior citizens and provide with more income in-hand.





MONEYLIFE QUIZ

Moneylife Quiz no **278**

Another quiz to tease your brain. The answers are in this very issue. The winner will be chosen by a lucky draw from correct entries and answers published in the issue dated 29 March 2018. Send in your answers to quiz@moneylife.in with the Quiz no., name, address & telephone number before 7 March 2018.

1. What is the estimated value of monthly inflows in the Indian stock markets from domestic equity MF schemes?
a. Rs10,000 cr-Rs12,000 cr b. Rs14,000 cr-Rs19,000 cr
c. Rs20,000 cr-Rs25,000 cr d. Rs26,000 cr-Rs30,000 cr

2. What was the return delivered by ICICI Prudential Top 100 Fund on a CAGR (compounded annual growth rate) basis, over five years ending 31 December 2017?
a. 10% b. 15%
c. 17% d. 20%

3. What is the unique selling point (USP) of a close-ended mutual fund scheme?
a. It forces one to stay invested b. It receives more funds
c. It has higher tax rebates d. It is less volatile

4. Of which empire was Mysuru the capital, before 1947?
a. Chola Empire b. Chhatrapati Shivaji's Empire
c. Wodeyar Empire d. Mughal Empire

In all, one reader got all the answers right last time. The winner of Quiz-276 is Arpit Sharma from Surat (Gujarat). **Congrats! You win a personalised clock with an investment quote!**



5. Of which publication was Dr Angell formerly the editor?
a. Harvard Business Review b. AeroAstro Magazine
c. New England Journal of Medicine
d. National Institute of Health & Care Excellence journal

6. For the quarter ending December 2017, how much was the operating profit margin of DEN Networks?
a. 15.7% b. 24%
c. 9.8% d. 12.7%

7. In the first 25 days of January 2018, how much was the estimated net value of equities purchased by FIIs?
a. Rs700 crore b. Rs9,000 crore
c; Rs10,000 crore d. Rs11,000 crore

8. According to which Section of the I-T Act can long- term capital loss be set off against long-term capital gains?
a. Section 80CC b. Section 80D
c. Section 6 d. Section 72

The answers to Moneylife Quiz-276 are: • 1-a. 2.14% • 2-c. 8.7% • 3-c. Lower than 1.5% • 4-c. Bengaluru • 5-b. Edward Snowden • 6-b. Section 10(13A) • 7-d. 40,000 • 8-b. March 2012

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Public Interest

Business Schools: Struggling To Bridge the Industry-academia Gap

Harishith Gowda (not his real name) is a student of a middle-rung business school in Bengaluru. Harshith cannot speak or write a word of English but has joined this business school, affiliated to Bangalore University. Anant Chavan (not his real name) is a student of a popular business school in Pune and his knowledge of languages is limited to Marathi and Hindi. How are these boys going to make the grade as post-graduate students in management, unless they stretch themselves?

Business schools, whose only aim is to impart a degree and help students get absorbed in one of the banks or call centres, have managed to cause untold harm to the quality of management education in India. The latent intent is to make as much money as possible. No wonder, mainstream media have labelled educationists as 'edupreneurs'—those with the sole motive of raking in huge profits by offering educational services of any kind.

As business schools with poor infrastructure continue to get accredited by statutory bodies, the quality of management education has reached abysmal levels. However, in stark contrast, these 'stalwarts' in education hold forth in media interviews on education. Most 'promoters' wax eloquent about the state-of-the-art facilities on their campuses and claim that their coaching is *avant-garde*, to make their students employable. Of course, they do this only to gain marketing mileage to attract more footfalls to their campuses. Some institutions treat their students as 'consumers' and this has posed the greatest risk in terms of kow-towing to all their unreasonable demands. One of the demands is getting a degree irrespective of the performance in examinations!

The funny part is that all of them want accreditation from the National Assessment and Accreditation Council (NAAC) but are unwilling to open their purse-strings. It is appalling that promoters don't feel the need to upgrade their infrastructure even though their fee collection runs into crores of rupees. Some of the educational institutions successfully compete with railway stations, when it comes to maintaining their toilets. Whether it is washroom facilities for lecturers or students, the situation is pretty much the same. Prior to audits, toilets are white-washed, to impress the visiting audit team. After the audit is over and certification is awarded, it does not take long for things to go back to square one.



Almost 80% placements are for call-centre jobs or for sales or front-office positions in private banks to help customer fill application forms

With faculty rooms in most business schools resembling a bull pen, nothing concrete happens in these rooms except gossip and chit-chat during non-teaching hours. No student feedback is ever taken on infrastructural aspects of an educational institution. This is very much part of the accreditation requirement but the issue is conveniently pushed under the rug and a utopian or 'make believe' world is created, supported by marketing jargon to win laurels from statutory authorities (besides, of course, 'taking care of them').

The quality of outgoing students is the litmus test of a business school's competence; this is what ensures quality placements. Most business schools proclaim 100% placement but if you investigate/probe further, you will realise that almost 80% placements are for call-centre jobs or for sales or front-office positions in private banks where the management graduate has to help customer fill the application forms or distribute brochures.

Most good companies shun middle-rung business schools. I spoke to a relative of mine in Accenture and she admitted that the graduates from business schools are so raw that it takes enormous effort and time to train them, to make them job-ready. None of the promoters (barring a few exceptions) allows faculty members to do consultancy work during non-teaching hours. So, rather than spend their time productively, most lecturers end up watching movies on

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YouTube when they have nothing else to do.

As there is little motivation to take up new subjects in the next semester, they are content with what they have prepared even if it was some six years ago. With 'performance management' still an alien concept in business schools, you really cannot blame the lecturers. Even the conscientious ones who do a good job can get demoralised over a period of time when they realise that dynamism is not appreciated and the difference in the reward between a sincere teacher and a not-so-sincere teacher is barely Rs300 per month.

As the interaction with industry is limited (read: non-existent), lecturers are light years away from what actually happens in the market or business world. Someone who is teaching 'advertisement' or 'rural marketing' will invariably be someone who primarily has only a bookish knowledge and no practical exposure. As I mentioned in one of my previous articles, the quality of research has been dipping so low that the less said the better.

I don't wish to paint all lecturers with a black brush. However, in most institutions, with a surfeit of content available on the Internet, lecturers do not feel the need to visit the library. Why would they, when managements are seldom bothered about the intellectual quotient of their lecturers? There are colleges where faculty members flash the e-books on screen without taking the effort to prepare for the lectures. Some faculty members play one video after another and feel that they are doing something creditable.

Today's students have become cocky because they feel that they are paying customers whom the business school has to keep happy. Lecturers have lost their jobs when influential students with political contacts question the low marks that they have secured or wish to manipulate their attendance record. Some have filed court cases as their defence. There are students who have fabricated project reports or simply copied them from the Internet and, when questioned, have brought in rowdies or lumpen elements to threaten the dean or director of the institution. If this is the approach student-consumers have towards their education, how can one expect them to meet the needs of industry?



As the interaction with industry is limited (read: non-existent), lecturers are light years away from what actually happens in the market or business world

I fail to understand why institutions eschew the right kind of student feedback? The problem is not with the feedback mechanism *per se* but the way it is administered. Rather than asking for feedback on academic matters, it is about behavioural issues of faculty members. Students, who are lazy in the classroom, feel that it is time to get even with their teachers when it is time for feedback.

My observations may be perceived as somewhat snarky but, as an academician with so many years of experience, I am disgusted with the blatant commercialisation of the education sector. While marketing is required to create awareness among consumers about your product, making false claims and short-changing gullible parents or students is certainly not the way institutions grow in the long term.

Apart from the false claims of the educational institutions, what is also alarming is that their complete apathy when it comes to building bridges with industry. Business schools are expected to supply value-added minds to industry. This is not happening today; a lot of things will need serious attention to sustain in the long run and organise meaningful discussions with the corporate world. Wearing blinkers or keeping an eye only on the revenues is not the hallmark of an edupreneur. In most institutions, the positions of dean or director have little authority to bring in change and they are expected to ensure that the day-to-day administration is smooth. Given a choice, some promoters may want to do away with such positions but they have no choice because this is a statutory requirement. Often, directors in business schools are not on permanent rolls and are appointed on a contractual basis.

Bridging the gap between academia and industry—which alone can enhance the value of business schools and its students—will continue to be 'mission impossible', unless a slew of measures is taken to reform the operational efficiency of business schools, in particular, and the education sector, in general. All the statutory certifications hold no meaning, unless they can engender at least some improvement in the education sector. — ***Chandraprabha Venkatagiri*** ■

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CROSSHAIRS

Exclusive news, the stories behind the headlines and the truth between the lines by Sucheta Dalal

Incredible India and How It Destroys Our Heritage and Wealth

'Incredible India' is our celebrated international tourism campaign. A weekend trip to the historical city of Mysuru brought home to us how apt this slogan is, but in a dramatically different way. Every description of Mysuru tells us that tourism is the major industry of this picturesque former capital of the Wodeyar Empire. Known for its silk and sandalwood, the beautifully laid out city has several palaces, heritage structures, museums, lakes and the magnificent Brindavan Gardens.

It connects places of historical, religious importance such as Shravanabelagola, Shrirangapatna as well as Bandipur National Park, Ranganathittu bird sanctuary and the coffee estates of Coorg. As the main weekend getaway for Bengaluru's enormous population of affluent youngsters from the tech-industry, neighbourhood tourism alone has boosted Mysuru's status as a tourist centre.

We, Indians, inured to creaking infrastructure, bad roads and poor planning, happily overcome all odds to flock to such destinations, while the government focuses on expensive publicity campaigns and catchy slogans. Nobody is accountable for failing to realise our tourism potential or preserve our heritage, or, at the least, prevent its loot and destruction. Here are a few observations from my recent trip to Mysuru.

- For starters, the rush of people getting out of Bengaluru on the long Republic Day weekend was so huge that the 144km journey to Mysuru expanded to five hours, without stops, instead of three. This is because every crowded town on the way slows the two-lane traffic to a crawl. Since the route is dotted with cafés and hotels, this has probably happened every weekend for 25 years as India's Silicon Valley boomed. But the government hasn't thought it fit to build expressways or bypasses. There are no flights to Mysuru, although it has an airport built by the Maharaja in 1940. Wikipedia says that Kingfisher ran a few flights, until it shut down. There is a solitary TruJet flight connecting Chennai. This is how much Incredible India understands its tourist potential!
- We chose to stay at the splendid Lalitha Mahal Palace Hotel built in 1921, partly for nostalgic reasons and partly the astonishingly low rates offered. That it was an ITDC (Indian Tourism Development Corporation) hotel gave us second thoughts; but we were assured that it was worth the experience. Indeed, it was, in many ways. True to the reviews, the staff and service were excellent, within their operating constraints. The rooms were huge but musty, paint peeling off in parts, old fittings crying out for refurbishing and, yet, worth it. The Hotel's large lobbies and sweeping corridors with its grand staircase, glorious paintings and gorgeous stained glass are perfect settings for lobby lounges and cafés.
- But Lalitha Mahal's stately entrance, and every public space around, was crawling with film crew over the weekend. Guests had to pick their way through snaking black cables and equipment. Bored film extras, in quaint period costumes, lounged



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on every available sofa in the public areas. The rest of the space was blocked by an elaborate set for performing a religious ceremony. Initially, one was amused at the picture this created; but, after a while, some of the guests began to lose their patience with the noise and the crowd. A security guard helpfully told us that the film crew pays Rs2 lakh a day and that is what keeps the loss-making hotel going. Isn't that extraordinary? Because a refurbished hotel, or even one that was given to a major hotel chain to manage, would easily fetch four times the tariff.

- On our last day, the entire lobby and the front lawn was given away for a massive wedding which was allowed to put up giant hoardings, including that of former prime minister HD Deve Gowda at the Hotel's porch, like in a political rally. We were happy to be checking out that morning, especially since the Hotel officially declares that all public areas, including lobbies and swimming pool, are available for film shoots. Bad luck to paying guests who may feel harassed and short-changed.
- In most hotels, food & beverage accounts for nearly 50% of income. But not here. The solitary restaurant had a highly-recommended *thali* (not on all days), but a very limited menu. With Mysuru swarming with tourists, the grandeur of the Lalitha Mahal Palace, with a buggy ride offered inside its sweeping gardens, should have been a huge attraction, if it were more inviting and the space was available for specialty restaurants and lobby cafés. Instead, the lone restaurant was also largely empty. The Hotel would rather allow film shootings and lose money by permitting the film crew to cook their own meals on the grounds.
- As you drive into the Hotel, the security guard encourages you to buy a Rs100-ticket (including GST) to look around the Hotel (see ticket and photos). This allows entry into the grounds and entitles the buyer to a tea/coffee served in the lobby area. Although the ticket says that there is a separate charge for video and photos, nothing can be done about the ubiquitous mobile cameras with videos. Remember, coffee at the restaurant costs Rs300 with taxes. But for Rs100, you can have it in the lobby. This decimates the Hotel's standing and has come in for plenty of public criticism.
- Meanwhile, the artificially low rates allow politicians and bureaucrats to have a free run of the Hotel and its services for their functions with no check on the enormous value destruction involved.



Coffee at the restaurant costs Rs300 with taxes. but for Rs100, you can have it in the lobby. This decimates the Hotel's standing

Why is this gross mismanagement, de-selling and devaluation of the Hotel of importance to the public at large? Well, because these properties belong to the nation and, once they run up enough of losses, they are sold off for a song in dubious deals. We have the example of the two massive Centaur Hotels in Mumbai. The Airport Centaur was sold for a paltry Rs83 crore and scandalously resold to the notorious Sahara group for Rs115 crore. Sahara has gone on to quadruple floor space by obliterating the gardens and expanding the Hotel's circumference. So the huge benefit of most expensive real estate in the world went to a private, politically connected group.

The other Centaur, an equally spectacular property in upmarket Juhu, which is home to movie stars, is still languishing. We also have Air India, which has been turned into a white elephant and its massive debt of Rs30,000 crore will, eventually, be paid by the exchequer or it will be sold at a pittance.

The Lalitha Mahal is a spectacular but loss-making property that is being deliberately run down by ITDC, which took it over in 1974. Last year, ITDC signed an agreement to transfer the property to the Karnataka government, after its lease expires in 2023. The state and the Hotel are already squabbling over maintenance and other issues.

A fair sale of the Hotel or even a management contract to a global hotel chain will bring massive revenue to this Hotel; but, clearly, the destruction plan has tacit consent from government officials at the state and Centre. This is truly Incredible India, where we have the best properties and heritage in the world, but are systematically extinguishing their value, while splurging money on advertising puffery and extolling our so-called nationalism.

(For this article, I made multiple attempts to contact Ravneet Kaur, chairperson and managing director of the Hotel directly (courtesy Amitabh Kant of NITI Aayog) and through the PR firm Adfactors. No one bothered to respond.) ■

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Modicare: All Sound and Fury...

The big take-away from the Union Budget 2018 was the mega National Health Protection Scheme that is probably aimed at getting Modi *sarkar* through the 2019 general elections. The programme, dubbed as Modicare, is already claimed to be the largest government-funded healthcare scheme in the world by providing a cover of Rs5 lakh to 100 million families (or 500 million Indians) for secondary and tertiary care.

Typical of this government, the scheme is tall on claims and short on details. Only Rs2,000 crore has been provided for the grand plan in the Budget, but that has not stopped acolytes and apologists claiming it to be a game-changer, while detractors are calling it another *jumla* (empty statement). And, yet, no political party would dare to oppose a scheme that promises much-needed healthcare to our poorest people.



Courtesy: www.miscw.com

Researchers, who have studied the RSBY of 2008, covering five persons per household below the poverty line (BPL), found severe problems with its implementation and corruption; over half the households enrolled were not even BPL

Will Modicare work and be a game-changer? It is too early to say, except that there are too many contradictions and questions. Over the past four years, the Narendra Modi government has demonstrated its ability to ram through big and audacious programmes but has fallen far short on implementation. Demonetisation and the Goods and Services Tax (GST), with its many glitches and frequent change in rules, caused immense hardship and anger by treating people like guinea pigs. The government adamantly refuses to admit to any flaws in the mega unique identification programme (Aadhaar), despite sickening reports of denial of benefits and rights, data leaks and faulty implementation every other day.

When it comes to Modicare, puffery and media management is giving us different signals. On the one hand, an interview by Union health minister, JP Nadda, to *The Economic Times* suggests that the scheme is still being designed and will evolve over the next six months or longer. He told the newspaper that the best practices of various state governments that already have large healthcare schemes, will be studied to see "how the programme can best reach the masses." They may also be persuaded to subsume their schemes into Modicare and then "a separate body will be put together to run the programme on mission mode." This suggests a big-bang launch and media blitzkrieg just before the election code comes into operation, whose reach will be limited by the Budget allocation for it.

In complete contrast to what the health minister has said, Firstpost.com claims that a 28-page report titled "Universal Access and Quality" was prepared by top bureaucrats, way back in 2016, under the direct supervision of the prime minister. The report, it says "clearly stated that the government must provide health protection to 10 crore deprived families as per the Socio-Economic Caste Census (SECC) absolutely free of cost." Why then is the health minister saying that the scheme is still being formulated, two years later?

Writing for the Scroll, T Sundaraman, a healthcare expert, points out that a smaller version of Modicare "was, in fact, announced in the 2016 Budget—the only difference being that the sum assured was raised from Rs30,000 to Rs1.5 lakh then and to Rs5 lakh now. The scheme has not been operationalised in the last two years. Moreover, not even 50% of the funds under the existing health cover scheme have been spent in the past year." Dr Sunil Nandraj, a former advisor to the health ministry, has written that the government is already struggling with the Rashtriya Swasthya Bima Yojana (RSBY) which offered

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a Rs30,000-cover to 36 million people.

The issue is: What kind of healthcare infrastructure is really being offered to 100 million people? Ultimately, won't Modicare depend on the creaky government healthcare system or the massive corruption, malpractices, pass-backs, unnecessary procedures and extortive costs of private healthcare? There have been several hard-hitting books such as *Dissenting Diagnosis* and *The Ethical Doctor* that have exposed the rot in India's healthcare system from within and also suggested practical reform.

Serious corrective action and a clean-up of the healthcare industry ought to precede the roll-out of a massive, insurance-based, national healthcare programme; but this will take ages. The timing is so close to the general elections that this is wishful thinking.



Dr Arvind Mayaram, former finance secretary

So far, the government has only tried to cut costs by fiat. Last year, people cheered the dramatic 80% cut in the cost of cardiac stents and price control over several medicines. But this effort, to force down costs, has also had mixed results, with hospitals hiking up the cost of consumables and manufacturers squeezing supply. Media reports suggest that a rethink on costs is in the offing amidst hectic lobbying by the industry.

The poor need free primary healthcare as much or more than secondary and tertiary healthcare. Modicare requires availability of high-quality medical and diagnostic facilities within reach in small towns and villages of India which covers 70% of the population. Otherwise, the costs in bringing patients to hospitals will be prohibitive for many poor families. The Budget announced the Ayushman Bharat Programme to develop 150,000 health and wellness centres which is also only a proposal.

There is nothing to indicate that India can circumvent the pathetic public health infrastructure with public-private partnerships anytime soon. In fact, global experience suggests that government schemes are only a bonanza for the private sector and escalate healthcare costs for all.

Moreover, researchers, who have studied the RSBY of 2008, covering five persons per household below the poverty line (BPL), found severe problems with its implementation and corruption; over half the households enrolled were not even BPL. A health secretary in Maharashtra had expressed concern about needless surgeries (mainly bypass surgeries and hysterectomies) being performed due to the funding available under such schemes; but this has not even been studied in detail.

While the poor suffer enormously, due to absence of healthcare facilities and costs, the middle-class has borne the brunt of medical malpractice, galloping healthcare and insurance costs as well as rampant mis-selling of products. Other than a small set of organised sector employees who benefit from corporate group insurance policies, the majority of Indians have three big financial worries for their families—housing, education and healthcare.

Action to regulate the insurance industry has always been slow and inadequate; grievance redress is poor (all 17 posts of the insurance ombudsman in India are currently vacant) and affordable coverage for senior citizens remains a serious issue with insurers brazenly circumventing regulation to double insurance premiums in this segment.

As if this is not bad enough, the middle-class also pays an indirect price when the exchequer covers the losses of existing schemes. For instance, the Pradhan Mantri Suraksha Bima Yojana, an accidental death and disability cover with 130 million subscribers, has a 200%+ claims ratio. Insurers were told to hold premium at Rs12 per year for three years and it is now likely to treble.

If, as claimed, the government's vision is to provide universal life and health assurance to citizens "with defined standards of services and at affordable rates," a lot more work is required. So far, there isn't enough groundwork to make the big healthcare announcement very credible and it does appear more like election bombast.

Also, while one set of bureaucrats, led by the current finance secretary, is credited with formulating Modicare, here is what former finance secretary, Dr Arvind Mayaram (who was shunted out to tourism ministry in 2016), tweeted immediately after the Budget speech on 1st February: "Universal health insurance through private hospitals has not worked for the poor anywhere. The biggest beneficiaries are the private hospitals and insurance companies. There is no substitute for public healthcare. More money should have been pumped to strengthen it." ■

Sucheta Dalal is the managing editor of Moneylife. *She was awarded the Padma Shri in 2006 for her outstanding contribution to journalism. She can be reached at sucheta@moneylife.in*

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6 Pointers to Holding or Selling Stocks in a Bull Market

People tell me that I have been 'negative' on the markets for a long time. And the market continues to keep going up. I must confess that I do not know how markets behave. My view is that stocks have become expensive to own. I am finding it difficult to get quality stocks at a good price. Buying for short-term gains could be excellent but that is a trading game. I do not know when I will be caught on the wrong foot.

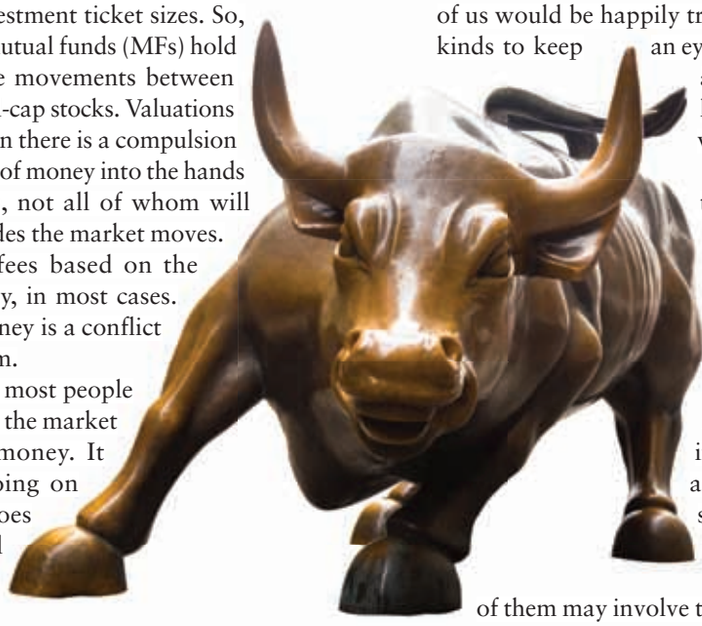
Today, everything seems to be going well for the markets. Forget the economic and business factors. Keeping the markets buoyant is the gush of money pouring into the markets. Just to give you a flavour of what is happening, foreign institutional investors (FIIs) SOLD nearly Rs44,000 crore of equities, net. This would be after considering their IPO (initial public offer) subscriptions, etc. As against this, domestic institutional investors (DIIs), comprising mutual funds, insurance companies and pension funds, BOUGHT nearly Rs91,000 crore of equities. These numbers are for calendar 2017. Now, let me tell you what happened in the first 25 days of January 2018. FIIs bought slightly over Rs9,000 crore, net, and DIIs SOLD around Rs700 crore, net.

It is a safe assumption that DIIs would have bought more mid-caps and small-caps than large-caps and FIIs have to perforce buy more of large-caps, given their size and minimum investment ticket sizes. So, the inflows from mutual funds (MFs) hold the key to relative movements between large-cap and small-cap stocks. Valuations do not matter, when there is a compulsion to invest. The flow of money into the hands of fund managers, not all of whom will say 'enough', decides the market moves. They earn their fees based on the quantum of money, in most cases. Thus, refusing money is a conflict of interest for them.

In this market, most people I meet have played the market and have made money. It is like a party going on next door; one does not need a formal invitation to join. At some stage, you just join in. Now, this party will break up at some point. When it gets done with, many of us would be left holding a mixed bag of apples—some large-cap, some small-cap, some high-quality, some low-quality, some turnaround, some commodity plays, etc. Many investors also rationalise their forays into the stock market with compartments—'core', 'trading', 'long–term,, etc.

We are all expecting earnings growth of a very high order to happen soon, to match the rising prices. When earnings come off from a poor past, they might even look spectacular. And then they drop off to a more normal level. If we expect a GDP growth of 7% and inflation of 4%-5%, the nominal growth would be around 12%. Of course, if you are an optimist, you can stretch it to between 15%-20%. Beyond that, it is in the realm of impossibility.

It is likely that the coming year will be an extremely challenging one for the economy, if crude oil prices go higher. Government, instead of reducing street prices of fuel, had used the fall to pad its own finances. Thus, when the cycle changes, we can either see street prices going up further or government's finances getting stretched. Neither is good for us. The one big expectation is that GST (Goods and Services Tax) will bring in a higher collection. I do not know how much higher the market could go. It could surprise all of us. In which case, most of us would be happily trading. I would urge the trading kinds to keep an eye on the stock prices. Stop-losses are useful, to limit losses in this kind of a market where prices whipsaw.

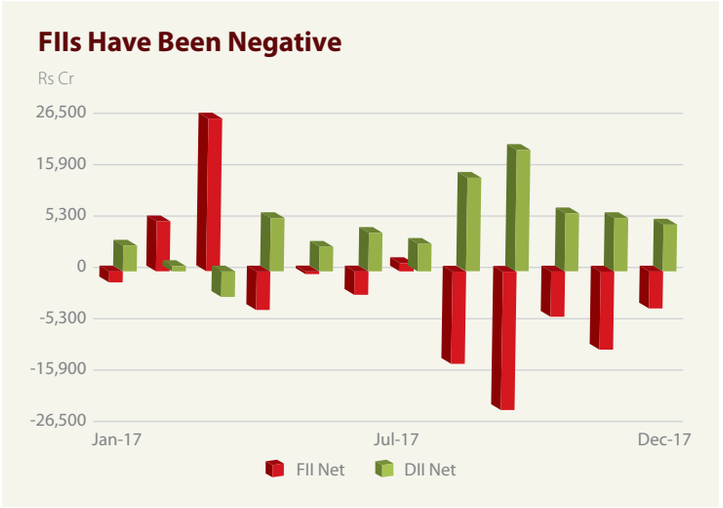


At some stage, it will seem that the market is going up, but that the stocks we hold are not. This churn is a natural process. Everyone seems to want to get hold of the one that has delivered good short-term returns and to chase some new ideas. Given the shallow markets in the small-cap stocks, price falls are very hard to recoup. When a stock goes out of favour, there is no bottom. It is better that we adopt some safe strategies. Some of them may involve taking a loss; but it will save us a

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lot of pain. Here are some steps I would take immediately:

1. Make a 10-year average of the return on equity (RoE) of the stocks I own. Keep the ones that are well above average, say 10%. I am unlikely to go below 15% in choosing what I want to keep.
2. Get rid of smaller stocks that are a very small part of my portfolio. For instance, anything that is under 3% of my total portfolio can go. I am assuming that a well-diversified portfolio will not have more than 10-15 stocks. If you want to own much more, it is better to own an MF scheme which will give you the diversification that you want by owning upward of 30 stocks.
3. Be cautious with commodity sector stocks. Where I have made good money, but still THINK that stocks will run up, take some money off the table. Best to write a target price and start selling off before then. Do NOT keep revising your targets after the selling price target is achieved. If it starts to fall, then it is probably a good idea to get rid of it and be grateful for your luck in spotting it at the right time.
4. When a stock rises dramatically and rapidly, it is probably more due to lack of depth in its volumes. Be happy for windfalls and take your money off.
5. Many people like to think that it is better to sell those in profits and keep those in losses. This is the worst approach to trading and investing. If you have to choose, sell off the ones that are under water. A strict limit, say of 10%, helps. Given our circuit filters, Often, the 10% does not hold and the actual losses can be higher.
6. My friends tell me that the infrastructure and commodity cycles are very favourable and hold this as a justification for high valuations. If you are a believer in that, just remember one pointer. Stick to companies with very low to zero debt on their books.



Markets and economics are at odds with each other. Some will explain it away as 'expectations'. I do not mind being wrong in this. Selling also tells me that I have made real money as opposed to paper money which can melt away rather quickly in a market such as this. If I have to have one formula for keeping a stock as opposed to selling, I will keep the stock where earning streams are more predictable and not dependent on external factors or commodity cycles. ■

The author can be reached at balakrishnanr@gmail.com

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Equity Schemes Performance, amidst Market Correction

What we have been all waiting for is, finally, here. Stock markets have corrected hugely, led by a heavy sell-off in the US markets where the slide was triggered by the latest unemployment data from the US department of labour, on 5th February. On Monday, 6th February, the Sensex opened 1,000 points (3%) lower than its Monday's closing price. How did US job data affect our stocks? In simple terms, lower unemployment means more people are employed and earn income, which is used for spending, which has the potential to increase inflation. That would lead to higher interest rates which is bad for stocks.

Additionally, the US government announced large tax sops for corporates which fuels the possibility of higher inflation. The central bank keeps a close check on the inflation rate in the economy and changes these rates accordingly. Higher interest rates mean corporations will pay higher interest on their loans and report lower profits; thus, being in equities won't be that beneficial; therefore, the exit from this asset class.

Financial markets tend to anticipate and promptly react to events expected to occur in the future. The fears outlined above, regarding the possible future course of events, led to global equity markets plunging. Obviously, mutual funds (MFs), which are always fully invested, weren't spared from this beating and saw huge drops in their net asset values (NAVs), depending on their exposure to mid-cap stocks. This article is aimed at retail investors, like you and me, who put monthly sums into equity MF schemes. Until now, the units received from every fixed monthly instalment kept reducing (because of increase in their NAV); but this month will be different. Many popular equity schemes' NAVs have corrected sharply, falling more than 10% from their last peak price in January 2018. This will give you more units for this month's SIP.



> The immediate culprits for the decline were: US labour data and long-term capital gains tax imposition on our domestic equities (which had a relatively lower impact on the broad indices)

What Should Investors Take Away from the Correction?

Investors should welcome this correction, as it was expected. The immediate culprits for the decline were: US labour data and long-term capital gains tax imposition on our domestic equities (which had a relatively lower impact on the broad indices); nonetheless, it is not a time to panic. Stay invested, and even pump up your SIP amount by 10%-15%. There is a simple reason for it. Foreign investors in our equity market may create jolts, but the monthly inflows of Rs14,000 crore–Rs19,000 crore from domestic equity MF schemes will cushion this fall. Additionally, the cash holdings of MF schemes will be deployed into stocks which have fallen to reasonable levels.

Which Scheme Declined the Most?

Equity MF schemes have had a good thing going in 2017. Net inflows into equity schemes were slightly lower in January 2018, at Rs13,404 crore, as per data of Association of Mutual Funds of India (AMFI). Surprisingly, the inflows as well as outflows were high; this reduced the net inflows. But, sadly, new investors into equity schemes witnessed a sharp decline in their investment

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Worst Performers

Scheme	Corpus (In Rs Cr)	% Decline*
Large-cap		
UTI Bluechip Flexicap	2,247	-6.80
ICICI Prudential Top 100	3,167	-6.70
Reliance Focused Large Cap	1,360	-6.50
UTI Top 100	1,000	-6.50
HDFC Large Cap	1,350	-6.20
Mid-and Small-cap		
DSP BlackRock Micro Cap	6,890	-10.80
Sundaram SMILE	1,481	-10.80
Mirae Asset Emerging Bluechip	5,364	-9.70
Reliance Small Cap	6,372	-9.50
Reliance Mid & Small Cap	3,558	-9.50
Multi-cap		
Aditya Birla Sun Life Pure Value	2,778	-11.00
Reliance RSF - Equity	3,520	-8.90
Reliance Growth	7,437	-8.70
SBI Magnum Global 94	3,729	-8.70
Reliance Equity Opportunities	10,658	-8.40

** In two weeks ending 6 February 2018*

as many schemes fell more than 10% in the past two weeks ending 6 February 2018. The table above shows the top losers of the market correction.

Some of these schemes have had a stellar performance record on a five-year basis. For instance, ICICI Prudential Top 100 Fund in the large-cap category delivered 17% CAGR over five years ending 31 December 2017 and ranked at number-5 in its peer group. The same scheme tumbled almost 7% in two weeks; this correction affected its long-term track-record. Large-cap schemes in our selection, i.e., those with assets under management (AUMs) of more than Rs1,000 crore, fell 6% in the two weeks, on average.

In mid-cap schemes, Reliance Small Cap Fund and Reliance Mid and Small Cap Fund took the plunge together and at the same rate. This does raise a suspicion whether their portfolios are the same; so we checked the latest available portfolio (of December 2017) of the two schemes. Fortunately, there were only eight stocks common to both schemes, while the rest 140+ stocks were different.

Coming back to the most volatile schemes, mid-cap schemes fell 8.4%, on an average; the worst fall was suffered by DSP Blackrock Micro Cap Fund, another top performer with a good record.

Mid-cap schemes had a tougher fight than large-caps, certainly; but some of the multi-cap schemes have suffered worse. Multi-cap schemes are known to diversify across all sizes of companies' stocks and are considered a good choice by some; this explains why these schemes have the highest AUMs in the equity-diversified schemes category. But a decline of 11% will come as a shocker. Gains made over three months in Aditya Birla Sun Life Pure Value Fund were wiped off in three weeks. Again, this scheme is the best performing multi-cap scheme in a group of 48 other multi-cap schemes.

To put all of this in perspective, high volatility is expected from mid- and small-cap-oriented schemes, since we know that these invest in riskier and more volatile stocks; but multi-caps weren't expected to nosedive so sharply. The table below lists some more schemes which hit their highest NAV in January 2018 and corrected sharply, by more than 10%, by 6 February 2018. ■

Worst Decline from Peak

Scheme	Corpus (In Rs Cr)	Highest NAV Date	% Decline up to 6 February 2018
ABSL Pure Value	2,778	15-Jan-18	-12.68
DSP BlackRock Micro Cap	6,890	09-Jan-18	-12.53
MOSt Focused Midcap 30	1,520	05-Jan-18	-12.41
Sundaram SMILE	1,481	15-Jan-18	-12.22
ABSL Small & Midcap	1,866	15-Jan-18	-11.11
Reliance Small Cap	6,372	15-Jan-18	-11.04
UTI Top 100	1,000	04-Jan-08	-10.81
UTI Mid Cap	4,441	15-Jan-18	-10.52
Mirae Asset Emerging Bluechip	5,364	15-Jan-18	-10.31
Reliance Mid & Small Cap	3,558	15-Jan-18	-10.23

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Best & Worst Mutual Fund Schemes

The best# three and the worst three schemes over the past three years ranked by their quarterly rolling returns. Premium members get access to a more refined list of top schemes by logging in to Moneylife Advisory - advisor.moneylife.in

Equity Schemes (Quarterly Rolling Returns)

Large Cap (Category Avg: 3.06%, Sensex: 2.28%)	Launch Date	Corpus (Rs Crore)*	Avg. Quarterly Rolling Returns	1-Year	3-Years**	Exp Ratio
SBI Bluechip	14-Feb-06	17869.50	3.58%	25.63%	14.32%	1.97%
Indiabulls Blue Chip	10-Feb-12	975.62	3.54%	29.75%	14.16%	2.78%
Aditya Birla Sun Life Frontline Equity	30-Aug-02	20702.20	3.42%	26.47%	13.66%	2.13%
DSP BlackRock Top 100 Equity	10-Mar-03	3381.78	2.68%	21.76%	10.71%	2.32%
HDFC Large Cap	18-Feb-94	1349.60	2.50%	28.05%	10.00%	2.21%
ICICI Prudential Select Large Cap	28-May-09	658.21	2.35%	20.30%	9.41%	2.61%
Multi-cap (Category Avg: 3.52%, BSE 200: 3.01%)						
Motilal Oswal MOSt Focused Multicap 35	28-Apr-14	11411.20	5.65%	33.07%	22.59%	2.20%
Aditya Birla Sun Life Pure Value	27-Mar-08	2777.70	5.46%	43.32%	21.83%	2.37%
L&T India Value	08-Jan-10	7047.01	5.27%	32.68%	21.09%	2.00%
IDFC Dynamic Equity	10-Oct-14	477.85	1.84%	16.93%	7.36%	2.49%
UTI Wealth Builder	17-Dec-08	983.08	1.73%	14.54%	6.92%	2.53%
Tata Regular Saving Equity	23-Jul-97	233.78	1.65%	6.03%	6.62%	1.76%
Mid-and Small-cap (Category Avg: 4.95%, Nifty Midcap 100: 4.87%)						
SBI Small & Midcap	09-Sep-09	943.48	7.89%	63.91%	31.55%	2.28%
L&T Emerging Businesses	12-May-14	3586.66	6.51%	50.33%	26.05%	2.12%
Aditya Birla Sun Life Small & Midcap	31-May-07	1865.78	6.10%	40.81%	24.39%	2.43%
Union Small and Midcap	10-Jun-14	294.13	3.51%	32.89%	14.04%	2.53%
DHFL Pramerica Midcap Opportunities	02-Dec-13	145.61	3.38%	24.28%	13.51%	2.62%
Axis Midcap	18-Feb-11	1359.15	3.36%	31.14%	13.43%	2.18%

Debt Schemes

Income (Category Avg: 2.03%, Crisil Composite Bond: 2.16%)						
ICICI Prudential Long Term Plan	20-Jan-10	3572.82	2.43%	4.21%	9.72%	1.30%
Franklin India Dynamic Accrual	05-Mar-97	3007.63	2.39%	7.79%	9.55%	1.77%
DHFL Pramerica Credit Opportunities	29-Sep-14	949.28	2.28%	6.73%	9.12%	1.69%
L&T Triple Ace Bond	31-Mar-97	304.38	1.65%	0.79%	6.60%	0.90%
Union Dynamic Bond	13-Feb-12	216.96	1.63%	0.17%	6.54%	1.38%
Edelweiss Bond	27-Jun-08	198.59	1.56%	1.17%	6.24%	0.90%
Liquid (Category Avg: 1.82%, Crisil Liquid Index: 1.83%)						
Escorts Liquid Plan	03-Oct-05	181.56	1.92%	6.59%	7.68%	0.90%
Indiabulls Liquid	25-Oct-11	4540.64	1.88%	6.70%	7.51%	0.25%
JM High Liquidity	31-Dec-97	2407.40	1.87%	6.72%	7.47%	0.20%
Reliance Liquid Fund - Cash Plan	07-Dec-01	6195.00	1.66%	5.80%	6.64%	1.05%
HDFC Cash Mgmt Fund - Call Plan	06-Feb-02	103.86	1.61%	5.87%	6.45%	0.25%
L&T Cash	27-Nov-06	426.12	1.58%	5.37%	6.32%	0.79%

*# Please note the table represents a comparative performance of mutual fund schemes over a three-year period and it is not a recommendation; * Latest quarter average assets under management; We have only considered schemes having a corpus above Rs100 crore. **Annually compounded*

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ULIPs To Get Boost due to Equity LTCG Tax?

Insurance companies are gung-ho about the prospects of unit linked insurance plans (ULIPs) due to Budget 2018 bringing in long-term capital gains (LTCG) tax on equity investments. ULIPs may be sold with new sales pitch of 'no taxation' when stock investment and equity mutual fund (MF) schemes will face LTCG of 10% without indexation. Debt MFs held for more than three years qualify for LTCG tax of 20% with indexation benefit. ULIPs have investment option of equity, debt or a mix. Policyholders can switch between the different investment options.

While ULIPs are better than traditional insurance products (endowment, money-back, whole-life), there are good reasons to not mix insurance and investment needs; life insurance is best-served by term plans. LTCG tax on equity investments can be a damper for investors, but the tax applicability on gains after 31 January 2018 is for LTCG above Rs1 lakh on equity investments (shares and mutual funds alike). It means that if your LTCG is below Rs 1 lakh, there is no tax incidence and, hence, small investors will not be impacted.

The following are ULIP-related issues that you need to consider:

1. Mortality charges are high.



ULIPs charge higher mortality charges (in line with traditional products) which makes term plans a better option. Term plans come with cheaper premiums allowing you to buy a large insurance cover by paying a small premium.

2. Buying ULIPs at older age is a 'no-no'. Mortality charges at older age are steep which will eat up the investment returns. The cost of insurance at older age can give you negative returns even when investment is doing fine.
3. Premium allocation and policy administration charges also devour your investment. Your net returns are impacted by the various charges levied by ULIPs.
4. ULIPs are bigger-ticket products. They can have higher investment minimum compared to MF schemes which can be started with a low investment of Rs500.
5. If the death sum assured is not 10 times or more than premium, the maturity amount is not tax-free. Many single-premium ULIPs may not qualify for tax-free returns. With TDS, the taxability of ULIPs is easy to track for income-tax department.
6. ULIP has a five-year lock-in, irrespective of whether or not you continue to pay the premium. It means you are stuck with the product irrespective of its fund performance.

G-Sec Yields Up

The 10-year benchmark G-Sec yield, which sets the tone of the fixed-income market, has jumped in the past fortnight by 32 basis points (bps) to end at 7.58% on 7th February.

G-Sec Maturity Date	Yield to Maturity
02 July 2040	7.95
30 September 2030	7.95
22 June 2045	7.93

G-Sec yields on 7 February 2018

Issuer	Maturity Date	Next Coupon	Last Yield (%)	ISIN	Rating
State Bank of India 9%	06 Sep-21	06 Sep-18	8.90	INE062A08124	CRISIL AA+ (unsecured)
HDFC Ltd 7.43%	20 Jun-22	20 Jun-18	8.17	INE001A07QT3	CRISIL AAA
HDFC Ltd 7.48%	18 Nov-19	18 Nov-18	8.15	INE001A07PT5	CRISIL AAA
NSE data as of last trade date of 6 February 2018					
Edelweiss Finvest Pvt Ltd 9.25%	04 Jan-28	04 Jan-19	9.27	INE241O08208	CRISIL AA
Bajaj Finance Ltd 7.84%	29 Jun-20	29 Jun-18	8.22	INE296A07OY4	CRISIL AAA
PNB Hsg Fin Ltd 7.44%	31 Oct-19	31 Oct-18	8.05	INE572E09536	CARE AAA

BSE data as of last trade date of 6 February 2018

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Insurance is supposed to protect you. But the real business of insurance companies is pooling money; they earn fees and their agents earn commissions. All their income and expenses come out of your money, 'invested' with them. And you get poor returns, after all the costs and charges.





Insurance fraud: Rs 248 in return for Rs 50,000 investment

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LUCKNOW: Investment plans are meant to bring in higher returns. But Virender Pal Kapoor (72) was left shocked when his Rs 50,000 investment in a unit-linked insurance plan (Ulip) for five years (starting 2007) yielded a paltry Rs 248.

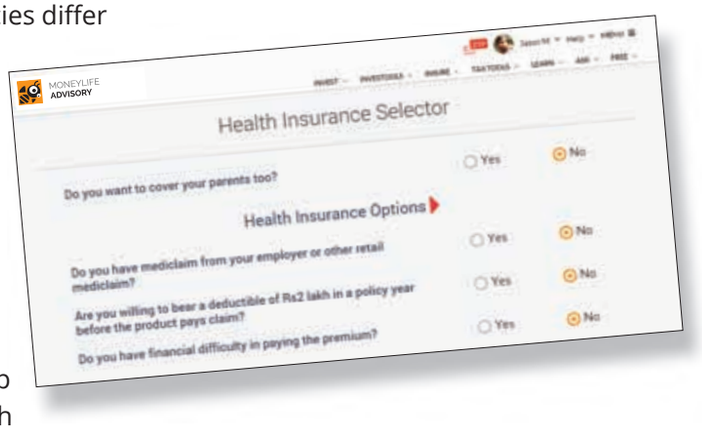
Which insurance product then is right for you? As a member of Moneylife Advisory, you get advice on selected term insurance products, identified after deep, unbiased research. Most importantly, you will get special support during your claims, as long as you make the right declarations.

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Worried that the 'investment' you had made in insurance is a dud? You can surrender, go paid-up or continue. What should you do? If you surrender, where do you invest and what new insurance do you buy? What are the tax implications? This tool from Moneylife Advisory will help you decide easily and quickly.

2. Right Health Insurance

Health insurance products are complex. Policies differ in exclusions, conditions and fine print. If you slip up on even one of the conditions, your claim may be rejected or cut down. A large number of cases generate disputes and some end up as complaints with the Insurance Ombudsman or consumer courts.



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MAS is a SEBI-registered investment adviser and part of Moneylife, India's most unbiased and pro-investor research and information group. We run India's best personal finance magazine, *Moneylife*. We are not afraid to call a spade a spade. We are India's only media company to have set up a non-profit trust, Moneylife Foundation, which is now the largest savers' and investors' association with more than 35,000 members. MAS was set up to help investors and savers make the right financial decisions and handhold them through the entire process.

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INSURANCE TRENDS

New products, regulations, features and options, interpreted from your perspective

HEALTH INSURANCE

Shocking: United India & Oriental Insurance Have No Data on Group Policies!

The Insurance Regulatory and Development Authority of India (IRDAI) is silent even as group health insurance bleeds taxpayers. United India Insurance (UII) has been underwriting such loss-making group policies. For example, UII had underwritten Mumbai Diamond Merchants Association (MDMA) group policy last year. But the policy ran into losses within a few months. It was not surprising considering the 'dirt cheap' premium they offered to a rich group. There was heavy rush to grab the benefits which resulted in a heavy losses to the insurance company. Even claims settlement process was delayed for those who raised their claims after the policy ran into losses.

Ridiculously low premium; coverage of pre-existing diseases (PED) from the first day; no waiting periods; no age-based premium; and no medical tests are a recipe for disaster. It results in adverse selection; people having health issues sign up for the policy and immediately start putting in their claims.

As UII has been underwriting group policies (non-corporate), it should have data related to it. But it seems they don't have the related data and may be that is the reason they are still underwriting loss-making group policies. If existing data are not available to decipher the mistakes, policies continue to be underwritten with the same mistakes.

We asked UII questions under the Right to Information (RTI) Act on issues related to group health (non-corporate) underwritten. The RTI application sought data



on: total number of policies, total claims amount paid, total premiums collected, average claims incurred ratio, average premium hike, policies which were not offered renewal, policies with claims incurred ratio of over 100% and so on. The response to the RTI application was shocking, to say the least. It says, "You have sought information with regard to the Group Health Policy (non-corporate). The matter was referred to the concerned department and based on their reply, we respond to you as under. We would like to inform you that the data on Group (non-corporate) Insurance Policies are not maintained in the Department."

Oriental Insurance had a similar reply. "As desired, reply received from the concerned health department at head office is as under: The concerned department at head office has informed us that they do not keep the information in desired format." It is not just UII and Oriental Insurance, but even other government insurance companies who need to improve group health insurance underwriting. Will merging of three government insurance companies really help? RTI questions to the remaining government insurance companies are unanswered till the time of writing. We will write about their response to keep readers updated.

HEALTH INSURANCE

Cholamandalam Rejects Genuine Medical Claim

"My father was under OPD (out-patient department) medication of a known doctor in a hospital. When we went for OPD check, the doctor asked us to get admitted. My father was hospitalised for an unplanned TURP (transurethral resection of the prostate) surgery. Due to complications post surgery, he was shifted to ICU and then discharged after four days. My father has a medical banccasurance with Cholamandalam MS bought via IndusInd Bank from 2010 and is renewed every year till now. I

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tried calling their toll-free number (18002005544) for a couple of days, but that number was always either busy or not reachable. I sent an email to the customer care on the 2nd day, morning. In the email from Chola MS, they had also attached a list of hospitals which Chola MS had delisted and the hospital in which my father was admitted is one of them. So my question is: Can I still file a mediclaim reimbursement even if the hospital is delisted one?" This was an email we got a few weeks ago.

The delisted hospitals list of Cholamandalam MS is available on - http://www.cholainsurance.com/pdf/downloads/List%20of%20Delisted%20Hospitals.pdf. It says: "Reimbursement of claims for treatment taken at these hospitals will not be accepted." In short, both cashless and reimbursement will be denied. Insurance companies have started creating such blacklisted hospital lists based on alleged detection of fraud from hospitals. Is it fair for the policyholders? Buying mediclaim with utmost good faith does not help if you end up in a hospital which is delisted by the insurance company. Are the policyholders expected to have up-to-date information on delisted hospitals?

People cannot be expected to keep themselves aware of blacklisted hospitals which may keep changing just like hospitals on cashless network change. It is tough enough to know the latest cashless network; now, the insured individual is expected to know about delisted hospitals as well. Are the insured given a delisted (blacklisted) hospital list when policy is sold and also at the time of policy renewal? If a hospital is delisted after your policy renewal, you can argue that the terms and conditions at time of renewal apply. Changes in the list during the policy term should not be acceptable.

Finding that the hospital was blacklisted by the insurer was a nightmare for the insured who had already undergone the procedure there. The hospital in question is Adventist Metas Hospital, Surat. As per the list, it was delisted by Cholamandalam MS on 1 May 2015. When the policy was issued (in 2010), Adventist Metas Hospital had a tie-up with Chola MS. The insurance company had given insurers names of hospitals in Surat



which were in its cashless tie-up list and this hospital was included. It means the hospital was not a delisted one at policy inception.

At the renewal of the policy, the policyholder had communicated multiple times to both, the IndusInd Bank and Chola MS, to provide them with the proposal form and other documents. But they insisted on giving only the health certificate and said that they could not provide other documents apart from it. Hence, they had not given any delisted hospital lists at the time of renewal of policy. How would a common man come to know if the hospital is a delisted one or not, that too when the same hospital was in the tie-up list at the issue of the policy?

Adventist Metas Hospital (formerly it was Adventist Wockhardt Hospital) is one of the oldest (established in 1923) and reputed hospitals of Surat. Since the hospital where the procedure was done has proper licences, there are good chances of winning the fight as the procedure was done in a genuine hospital. It is a valid hospital as per IRDAI definition of a hospital. Why will the insurer not pay the claim?

Our advice to the policyholder: You will need to gather all the documents to prove that the insured had the medical condition and that the condition was solved after the procedure. The proof of real procedure being done should make the insured's case strong. Test results to show ailment before hospitalisation and proof of problem solved will help. Get all the documents from the hospital and the doctor to certify the procedure which was done and its details, hospital discharge summary, hospital internal papers, hospital bills and so on.

Get everything so that you can give a proper fight. File the reimbursement claim. Let Chola MS make their decision. If they decline, ask for a specific reason for rejection. File the complaint and escalate it through grievance redressal process. Then, file complaint with IRDAI (https://igms.irda.gov.in) and insurance ombudsman of your location. Chola MS should pay reimbursement claim as per reasonable and customary charges for the procedure in the specific location. It will be unfair of the insurance company to reject the claim when the policyholder underwent a genuine medical procedure. ■

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SHOULD SEBI CLOSE DOWN CLOSE-ENDED SCHEMES?

Poor performance, high expense ratios and no exit-option make these products ill-suited for investors. A detailed exposé by Clinton Fernandes

The recent circular by the Securities Exchange Board of India (SEBI) hit the mutual fund (MF) industry right where it hurts. Fund houses were told to merge schemes which were similar in their objectives and focus. Fund houses will also need to check if a new scheme being launched isn't similar to those already offered by them. It does sound illogical to have the same products under one brand; but MFs were an exception to this, until now.

The new rules apply only to open-ended schemes which are available for buying or redemption on a continuous basis. Investors can enter and exit these schemes any time, subject to applicable exit-loads and taxes; but mainly provide the investor access to his/her investment anytime. On the other hand, close-ended schemes do the opposite. You can invest in these only during the subscription dates (usually lasting a week or a month) and, once entered, cannot exit the investment until the scheme expires; the expiry period ranges from a month to as long as 10 years!

The unique selling point (USP) of a close-ended scheme is that it forces one to stay invested. Although you can redeem your units by selling them off on the stock exchange, you would rarely find a buyer willing to purchase your units and that too at the current price of the scheme's units; in other words, you are stuck. Fund companies make a virtue of this illiquidity.

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Close-ended schemes were launched to be ideally better than open-ended schemes because the fund manager is less worried about outflows or redemption requests by investors and, thus, they enjoy full control over the assets under management (AUM) at all times. This helps in remaining invested in the specified asset class without being hassled about redemptions, especially when the markets are highly volatile.

Close-ended schemes manage around Rs1.60 lakh crore as per latest data of January 2018 on AMFI's (Association of Mutual Funds in India) website. This is only 7.14% of the aggregate Rs22.41 lakh crore managed by the industry across all types of schemes—low enough in percentage terms but not in absolute terms. If we take into account the total assets managed by close-ended schemes over their life, the figure tops Rs11.28 lakh crore (in first month AUM). That is why we will analyse the various close-ended schemes and their performance *vis-à-vis* their open-ended counterparts. We will also shed light on the undue risks taken by some of the schemes and the consequences faced by investors.

Considering the number of schemes launched, close-ended schemes easily outnumbered their open-ended counterparts. The total number of close-ended schemes launched up to 31 January 2018 stood at 6,711; this is exclusive of the sub-categories of the particular scheme, i.e., income/growth or regular/direct option. Compare this with the 3,761 open-ended schemes launched in the same period.

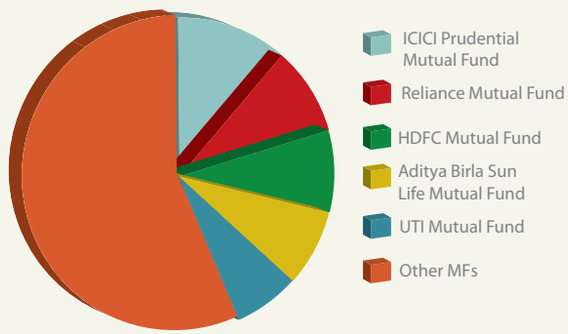
Thus, close-ended schemes have a wider footprint. But not all schemes launched get the attention of investors and, mostly, get wound up for not meeting the minimum requirements mandated by SEBI.

The big question we are asking is: What purpose to do they serve? Does the closed nature of the scheme give any benefit to fund managers and help deliver better performance?

Launch Numbers

The five biggest players in the close-ended space are mentioned in the pie-chart below. ICICI Prudential Mutual Fund (ICICI Pru) held the lion's share in close-ended scheme numbers; their first scheme was launched on 16 March 2005 called the ICICI Prudential Plan 1 and it mobilised Rs183 crore through its direct and regular plan. Even though ICICI Pru launched the highest number of close-ended schemes, it didn't mobilise the highest amount of money.

Schemes Launched Till Date

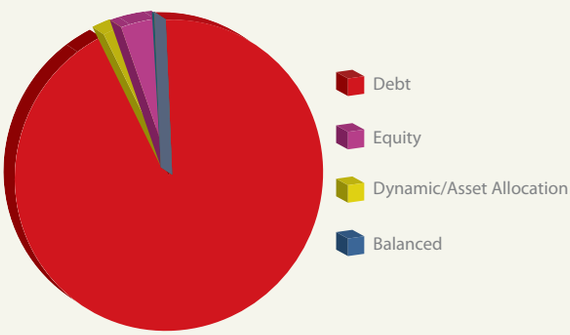


The table on the left shows the fund houses that amassed the largest AUMs in this category. Close-ended schemes are launched every month; the AMFI data always has a new list of close-ended schemes that were open for subscription in the previous month. In January 2018 alone, there were 28 close-ended schemes available for investing. The schemes that are popular in this class of MFs are debt-oriented schemes, dynamic or hybrid schemes and equity & tax-saving schemes.

Assets Mobilised Since Inception

Fund House	AUMs (Rs Lakh Crore)
Reliance Mutual Fund	1.64
HDFC Mutual Fund	1.23
ICICI Prudential Mutual Fund	1.15
SBI Mutual Fund	0.92
Aditya Birla Sun Life Mutual Fund	0.86
UTI Mutual Fund	0.75
Kotak Mahindra Mutual Fund	0.64
DSP Blackrock Mutual Fund	0.58
IDFC Mutual Fund	0.54
Tata Mutual Fund	0.34

Popular Category of Schemes



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Equity Close-ended Schemes

We're all aware of the ongoing bull rally in equities that started in late-2013. Open-ended equity schemes delivered double-digit growth in their net asset values (NAVs) in the past five years; but did their close-ended counterpart perform as well? We have presented many schemes that matured recently; these had tenures of 3 to 3.5 years. We compared their returns against their benchmark indices' total return index (TRI) for the relevant launch date and redemption date to see whether the scheme was able to outperform its own benchmark in that specific period of lock-in.

Observations: Performance of close-ended schemes seems to be worse than an average performing open-ended scheme. You do not achieve anything better for locking your funds in such schemes for three years or any tenure stated by the scheme.

Fund managers and their distributors have sold close-ended funds for the benefit of lock-in. This has turned out to be false. SEBI should start a discussion on whether such schemes serve any purpose other than fattening the bottom-lines of AMCs.

Use of Options

MF schemes are allowed to hedge their cash positions using derivatives such as Futures & Options. Introduction of this derivative instrument in close-ended schemes also helped in boosting their returns. But this added growth comes with a price: if the market goes against your plan, you lose more than you would otherwise without using Options. Here's a simple table that explains how this instrument actualises higher returns.

How Options Work

	Portfolio		
	1	**2**	**3**
Absolute returns of Nifty at maturity of scheme	-20%	0%	30%
Value of Rs20 through Options	0	0	30
Value of Rs80 through direct equity	64	80	104
Total Gain	**64**	**80**	**134**
Value of Rs100 used in direct equity only	**80**	**100**	**130**

Performance of Close-ended Equity Schemes

Scheme Name	Benchmark	CAGR[1] Since Inception	TRI[2] Benchmark Returns
Sundaram TOP 100-Series - I	Nifty 100	13.03%	15.69%
ABSL Focused Equity Fund - Series 3	Nifty 100	9.94%	12.60%
Sundaram TOP 100-Series - IV	Nifty 100	11.00%	12.86%
ABSL Focused Equity Fund - Series 4	Nifty 100	9.09%	9.75%
Sundaram TOP 100-Series - II	Nifty 100	11.80%	12.38%
Sundaram TOP 100-Series - III	Nifty 100	12.40%	12.63%
Canara Robeco India Opportunities	Nifty Midcap 100	10.76%	19.94%
DHFL Pramerica Mid Cap - Series 1	Nifty Midcap 100	20.19%	19.56%
LIC MF Diversified Equity - Series 1	S&P BSE 200	2.85%	12.43%
LIC MF Diversified Equity - Series 2	S&P BSE 200	4.60%	10.75%
UTI Focussed Equity - Series II	S&P BSE 200	7.41%	12.74%
Reliance Capital Builder - Series B	S&P BSE 200	9.59%	12.80%
Union Trigger Fund - Series 2	S&P BSE 200	8.47%	10.40%
Reliance Capital Builder II - Series A	S&P BSE 200	12.50%	13.70%
Reliance Capital Builder - Series C	S&P BSE 200	11.25%	11.47%
SBI Equity Opportunities - Series II	S&P BSE 100	12.11%	8.92%
Reliance Capital Builder - Series A	S&P BSE 200	19.98%	13.24%
Baroda Pioneer Equity Trigger-Series I	S&P BSE Midcap	12.63%	19.95%
ABSL Emerging Leaders - Series 2	S&P BSE Smallcap	19.02%	24.51%
ABSL Emerging Leaders - Series 1	S&P BSE Smallcap	26.77%	27.55%
ABSL Emerging Leaders - Series 5	S&P BSE Smallcap	22.25%	21.40%

1- Compounded Annualised Growth Rate; 2- Total Return Index

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We found some schemes which had a high exposure to Options in 2017.

Risk-takers

Scheme Name	Avg. Exposure to Options in 2017	Returns in 2017
DHFL Pramerica Large Cap - Series 1	16%	39.5%
ICICI Prudential Value - Series 6	12%	43%
Reliance Capital Builder II - Series A	18%	48.6%
Reliance Capital Builder II - Series B	14%	49.7%
Reliance Capital Builder III - Series A	17%	46%

The cards have played well for these schemes, but investors who regularly check the latest NAV of their schemes had to confront higher volatility faced by these schemes due to the higher volatility of Options. Seeing their portfolios fall more than the index shocks investors; that too for a relatively stable large-cap scheme. Additionally, the investor who has invested in these may or may not be fully aware of the reason why his/her portfolio is so volatile, and may seek an exit route to find better investments. There are some who argue that such hedging is necessary to protect investors in the schemes, and that the volatility should be seen in that context. Nonetheless, locking your money for three years and being exposed to derivative instruments while being unaware of the risks makes such schemes unsuitable.

Debt Close-ended Schemes

Fixed maturity plans (FMPs) dominate in the close-ended category. These are part of the broad debt scheme universe. Corporates tend to find these attractive because of the way they work. So how do they work and why are they different from their open-ended counterpart short-term debt schemes?

FMPs accumulate funds from investors and purchase debt securities which have a residual maturity aligned to the tenure of the scheme. For example, if the FMP has a tenure of five years, the fund manager will look for debt papers and fixed-income securities which have a residual maturity of five years or lower and purchase and hold these till maturity. When a debt security is purchased and held until maturity, the returns are locked-in and interest rate risk is out of the picture. Because of the certainty of returns, corporates have fuelled the growing AUMs of these schemes. Neither the scheme information document nor the fund house guarantee the rate of return; but knowing how these schemes work, investors have a fair idea about the returns they can generate from FMPs.

On the other hand, open-ended schemes receive continuous inflows and redemption requests; this keeps the fund manager busy with buying securities at the

Performance of Debt-oriented Close-ended Schemes

Scheme Name	Benchmark	CAGR Since Inception	TRI Benchmark Returns
Invesco India FMP - Series 25 - Plan A	CRISIL Composite Bond Index	8.16%	8.59%
ICICI Prudential FMP - Series 76 – 1100D - Plan D		8.14%	8.89%
UTI FTF - Series XXI - II		8.42%	8.24%
UTI FTF - Series XXI - I		8.51%	8.76%
UTI FTF - Series XX - XVI		8.62%	8.89%
UTI FTF - Series XX - XVII		8.55%	8.80%
SBI Debt Fund Series 60 Months 3		7.88%	8.61%
LIC MF FMP - Series 92	CRISIL Short Term Bond Index	7.94%	8.29%
ICICI Prudential FMP - Series 76 – 1100D - Plan G		8.00%	7.88%
Reliance FHF - XXVIII - Series 4		7.99%	8.00%
HDFC FMPs – 1107D - December 2014 (1)		8.03%	8.04%
ICICI Prudential FMP - Series 76 – 1103D- Plan F		7.98%	7.92%
SBI Debt Fund Series B - 4		7.97%	8.28%
SBI Debt Fund Series B - 6		7.88%	8.12%
Sundaram FTP ER		8.23%	8.74%

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interest rates available. This layering of new debt over dated debt papers that offered higher returns lowers the overall returns of the scheme. Corporations don't like this uncertainty of changing interest rates and prefer FMPs regardless of their lock-in. But, for the retail investor, FMPs make no sense. There are two reasons for this: one is liquidity which is obviously not available considering the narrow options available to exit an investment before maturity. Secondly, performance of open-ended short-term debt schemes has been at par with this category of schemes; in other words, there is no benefit for locking your money for many years when there is no better performance.

The average returns in the past three years from the counterpart open-ended debt schemes have been 8%; this also makes FMPs unfavourable compared to open-ended debt schemes.

Hybrid Close-ended Schemes

The third category of popular close-ended schemes is hybrid schemes. There are two types of hybrids—one being 'marginal equity schemes' which are considered debt-oriented schemes with a small portion allocated to equities; the other being dynamic schemes which have

Performance of Hybrid Close-ended Schemes

Scheme Name	Benchmark	CAGR Since Inception	TRI Benchmark Returns
ICICI Prudential CPO VI - Plan B - 1100 D	CRISIL Hybrid 85+15 - Conservative Index	7.58%	10.87%
LIC MF CPO - Series 4		6.57%	11.33%
ICICI Prudential CPO VI - Plan D - 1100 D		7.64%	11.39%
UTI CPO Scheme - Series IV - I (1103 Days)		7.12%	11.24%
ICICI Prudential CPO VI - Plan E - 1100 D		7.61%	11.59%
ICICI Prudential CPO VI - Plan F - 1100 D		7.47%	11.40%
ICICI Prudential CPO VI - Plan G - 1100 D		6.99%	11.46%
Aditya Birla Sun Life CPO - Series 23		6.24%	11.19%
Canara Robeco CPO - Series 3- 37M		7.38%	10.84%
ICICI Prudential CPO VI - Plan H - 1100 D		7.24%	10.99%
UTI CPO Scheme - Series IV - II (1104 Days)		6.72%	10.77%
LIC MF CPO - Series 5		6.31%	10.54%
HDFC CPO - Series III - 1100D - Oct 14		6.27%	10.91%
DHFL Pramerica Hybrid FTF - Series 32 (1100 Days)		3.48%	9.63%
Axis Hybrid - Series 13		6.35%	10.17%
BOI AXA CPO - Series 2		5.62%	9.42%
Reliance Dual Advantage FTF VII - Plan A		5.41%	9.17%
Reliance Dual Advantage FTF VII - Plan B		5.64%	9.33%
DHFL Pramerica Hybrid FTF - Series 33		4.66%	8.14%
ICICI Prudential Multiple Yield - Series 8 - 1103 Days - Plan C		6.27%	9.63%
ICICI Prudential Multiple Yield - Series 8 - 1101 Days - Plan E		6.47%	9.73%
SBI Dual Advantage - Series V		6.75%	9.73%
DSP BlackRock Dual Advantage - Series 34 - 36M		5.29%	8.07%
DSP BlackRock Dual Advantage - Series 29 - 40 Months		7.55%	10.33%
SBI Dual Advantage - Series VI		6.96%	9.51%
UTI Dual Advantage FTF Series I-I (1100 Days)		7.55%	9.16%
Tata Dual Advantage - Series 2 - Scheme B		7.93%	9.51%
DHFL Pramerica Hybrid FTF - Series 29 (40 Months)		8.68%	10.11%
ICICI Prudential CPO - Series III - Plan B		10.58%	8.74%
UTI CPO Scheme Series IV-III (1105 Days)		7.07%	9.38%

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the flexibility of juggling between debt and equities at their discretion. In a recent issue (*Moneylife*, 4 January 2018), we had analysed the performance of open-ended dynamic schemes and found that they offered nothing great in terms of asset allocation. Half of the dynamic schemes were fully invested in 2008 when the markets were at their extreme valuations; a time when they should have been in safer assets such as debt/fixed-income. Even in today's scenario of high market valuations, many dynamic schemes continue to keep unreasonable exposure to equities, thereby contradicting their purpose.

It is evident from the performance table on the previous page that even close-ended hybrid schemes underperformed their benchmark indices. Part of the reason could be the low-exposure to equities in these schemes compared to their benchmark index's composition; nonetheless, a gap of 2%-3% in performance is a lot and higher returns at 8% per annum(pa) were delivered in short-term debt schemes which have zero exposure to equities. The performance of dynamic schemes was poor as well, compared to their benchmarks.

What's more surprising is the varying tenure of some of these schemes. IDFC Equity Opportunity - Series 3 scheme was launched on 10 February 2014 and matured in 21 months (on 30 November 2015). This was an equity scheme and had tenure of only 21 months!

Five Reasons Why You Should Never Buy Close-ended Schemes

Close-ended schemes, whether equity-oriented or debt, have a very high expense ratio. Until now, this expense ratio included exit-load charges as well. Exit-load is justified for open-ended schemes, to induce clients to remain invested for a longer duration; but, in the case of close-ended schemes where there is no option of exiting prematurely through the fund house, the imposition of exit-loads made no sense. Although the exit-load charged has to be compulsorily reinvested into the scheme, the whole point of mentioning it in close-ended schemes is baseless.

Only recently did SEBI bar close-ended schemes from charging these exit-loads. In a recent circular, the market regulator said, "It is clarified that mutual fund schemes including close ended schemes, where in exit load is not levied / not applicable, the AMCs shall not be eligible to charge the above mentioned additional expenses for such schemes. Further, existing Mutual Fund schemes including close ended schemes, wherein exit-load is not levied or not applicable, shall discontinue, with immediate effect, the levy of above mentioned additional expenses, if any."

The second reason why close-ended schemes do not make sense for every kind of investor is because of the lump-sum need of the scheme. Most retail investors have resorted to the choice of systematic investment plan (SIP) that allows investing in open-ended schemes on a daily/weekly/monthly basis. This method has proven simple and efficient in mitigating risks of wrong market timing and keeping investors stay in the scheme for a long-term. This isn't possible with close-ended schemes as you need to invest a lump-sum in these and lose access to the money until it matures.

What's more surprising is the varying tenure of some of these schemes launched in the past. Take the example of IDFC Equity Opportunity - Series 3 scheme which was launched in 10 February 2014 and matured in 21 months (on 30 November 2015). This was an equity scheme and had tenure of only 21 months. Equity schemes tend to perform better over five years. Add to it the lump-sum investment need of these schemes and it becomes clear that these investments aren't suitable.

Reason three for not investing in close-ended schemes is absence of data on past performance. Every scheme in this category is a new product with no track record. This is an important feature. Past performance is a useful indicator for evaluating a scheme to put your money in. This is done by discarding hundreds and thousands of schemes which haven't been up to mark in their

Unfair Charges

Scheme Name	Total Expense Ratio	
	Direct	Regular
Sundaram Long Term Micro Cap Tax Advantage - Series VI	0.6	2.9
HDFC Dual Advantage - Series III - October 2016 - 1267D	0.3	2.5
HDFC Dual Advantage - Series III	0.4	2.4
ICICI Prudential Value - Series 14	0.5	2.5
ICICI Prudential Value - Series 15	0.5	2.5
Sundaram Value - Series 9	0.9	2.9

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performance. Consistent performers have a tendency of remaining on that track for the future as well. We had discussed this in our Cover Story "Picking Winning Equity Schemes" (*Moneylife*, 31 August 2017). Such analysis isn't possible with close-ended schemes; thus, putting your money in these is like hoping for the odds to be in your favour.

The fourth reason is the higher commission paid out under these schemes to bring in customers other than the expense on advertisements. Take a look at the wide gap in the expense ratio of some of these schemes. MFs spend higher on advertisements and commissions when the scheme being promoted has a lock-in period; higher lock-in means consistency in revenues generated through the expense. This is why tax-saving equity schemes and close-ended schemes are advertised more than plain-vanilla equity-diversified schemes.

Close-ended schemes offer no value at all. Their performance ranges from mediocre to poor. They are expensive and investors cannot exit them. Who are they benefiting? Only fund houses, who feast on high expense ratios, and distributors who get fat commissions

Banks have been at the forefront of pushing these schemes because of the fat commissions they earn at your expense. It is essential to take advice from a fee-based investment adviser on matters related to investments. Taking investment decisions on the bank relationship manager's advice is injurious to your finances.

The fifth reason to avoid close-ended schemes is that the exit route through stock exchanges does not work. SEBI has mandated fund houses to offer any one exit route to investors in close-ended schemes—either a redemption window during the tenure of the scheme or exit through stock exchanges. The first option is rare and usually investors have to take the stock exchange route to sell their units before the scheme's maturity date.

This exit route does not work due to very low, or zero, liquidity. There are simply no buyers for these units. Hence, the seller has to lower the price of the units significantly to attract any buyer. Just log into your brokerage account and search for close-ended schemes available for purchase and you will see the low liquidity prevailing in most of the schemes.

There are even asset management companies or savvy investors who exploit this opportunity of buying debt-oriented close-ended schemes' units from the stock exchange at a good discount to the current value and, therefore, bagging higher returns from it. For example, close-ended scheme ABC is up for maturity in the next two years and Mr A wants to exit his investment prematurely. He looks up the stock exchange window to see if there are any bids for his scheme's units. Unfortunately, there aren't any and, if there are, they are at a 5%-20% discount to the current market value of the unit. Mr A has no option but to give in to the loss-making offer or wait for a higher bid. On the other side, the investor who buys the units at a discount will earn 10%-14% returns or more from the same scheme that actually delivered 8% to everyone else.

Close-ended schemes offer no value at all. Their performance ranges from mediocre to poor. They are expensive and investors cannot exit them.

Who are they benefiting? Only fund houses, who feast on high expense ratios, and distributors who get fat commissions by persuading unsuspecting investors to buy them. SEBI's recent actions have been commendably pro-investor, whether separating the role of advisers and distributors or forcing fund houses to reclassify and rationalise their schemes.

Closing down close-ended schemes would be consistent with the same pro-investor thinking. Unless, of course, fund houses can come up with radically new and improved versions of such schemes. ■

Methodology

We have used Mutual Funds India database; online resources such as valueresearchonline.com and AMFI India's reports were used as well. The schemes mentioned in the performance section have been listed in descending order of redemption date, to predominantly focus on the recently matured schemes. For fair comparison of their returns to its benchmark, we used the dividend-inclusive total returns indices values against the price-only current benchmark indices of the schemes. This modified benchmark captures the dividends which are received from the securities along with its market price. Additionally, launch date and redemption date of the schemes were taken from multiple sources and its accuracy depends on the source itself.

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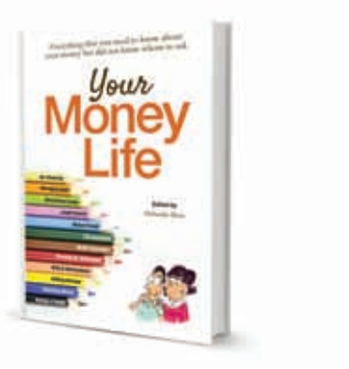
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Be Your Own Bank

From childhood, we endeavour to teach our children the importance of savings and how to open and operate a bank account. When we get our first salary or earn our first income, we are likely to invest in bank deposits. This is fine for a start; but it is not a good idea to continue for all times. The monsters of inflation and income-taxes will eat up a lot of savings. When we decide to start a business, we look to a bank for financing our business ventures. When the economy seems to be in trouble, we park our hard-earned money in bank accounts little knowing that the banks themselves are bankrupt in the short run, saddled under the burden of large non-performing assets (NPAs). Today, we will proudly and tirelessly use the various modern technological banking facilities like Internet and mobile banking, ATMs, etc.

What is a bank? Simply put, a bank is a money-lending business. But it involves astute liability management, judicious credit appraisal and lending, intelligent treasury operations, appropriate cost set-ups, vigilant risk monitoring, etc. All of this results in good banking experience for customers, timely loans for borrowers, systemic stability for the regulator and enhanced shareholder returns for investors. In the good old days, there used to be barter system—goods and services used to be exchanged for goods and services. However, man created money as a medium of exchange and store of value. Over a period of time, the creator became a slave of his own creation—wage slave of the employer, tax slave of the government and loan slave of the bank. Banking is the riskiest of all businesses because it's nothing but a sophisticated system-oriented money lending business. Banks work under the 'fractional reserve system'—they borrow Rs100 as deposit and can multiply it by, say, nine times and lend Rs1,000 in the form of loans. For example, say, there is a bank called XYZ Bank. Now, the owners or shareholders put Rs100 of their own money called share capital. Based on this, the bank is now allowed to accept around Rs900 in deposits (like current and savings accounts, fixed deposits). So, the bank now has total available funds of Rs1,000. Let us assume it invests Rs400 in government securities and bonds which results in its having surplus funds of Rs600 which it then lends. The typical balance sheet of XYZ Bank would look as follows:



XYZ Bank - Balance Sheet

Liabilities	Amount (Rs)	Assets	Amount (Rs)
Shareholders' Funds	100	Investments	400
Deposits	900	Advances / Credit	600
Total	**1,000**	**Total**	**1,000**

To puts things into perspective, XYZ Bank has lent and invested Rs1,000 with its own money (capital) being just a fraction of it at Rs100 and the remaining Rs900 is depositors' money. Therefore, if we assume that all the depositors of Rs900 simultaneously go to withdraw their money on a particular day, then the Bank just has Rs100 of its own capital to pay them off immediately. *Therefore, in the short term, all banks are actually always bankrupt!* Even in the long term, the ability of the Bank to pay off all the depositors of Rs900 depends on whether it is able to collect back the loans from the borrowers or realise the value of its investments.

If even some of the borrowers default, eventually the bank will be forced to default to its depositors. In reality, if such an eventually should arise, the government will, most probably, *bail them out*. And this bailing out will not happen by any *magic wand* but either through 'money printing' which will result in inflation and the rise in the prices of goods and services in the economy will eat directly into the stomach of the poor or through additional taxes which will further burden the already strained finances

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of the middle-class. This may sound scary, particularly when almost all people somehow or the other deal with a bank either by way of a borrower, depositor, employee, shareholder, regulator and so on. So what will you look for in a bank?

If You Are a Borrower: The bank should be promoted by a reputed institution or government and be in existence for a reasonable amount of time.

If You Are a Depositor: In addition to the point of the borrower (above), you will also ensure that the bank has adequate capital and has negligible, or low, net NPAs or defaulters.

If You Are an Employee: In addition to the points of the borrower and depositor (above), you will also ensure that the bank has good HR (human resource) policy for its employees.

If You Are a Shareholder: In addition to the points of the borrower, depositor and employee (above), you will also ensure that the stock of the bank is available at below or close to book value, unless it generates a high return on equity for its shareholders which justifies it to quote at a premium to book value.

Hence, the next time you look at a bank don't just judge it by the number of its branches or ATMs or the amount of technology it uses or the quantum of people following or liking it on social media or the courtesy with which its sales people and relationship managers talk to you. Of course, these are added services which the bank is, nowadays, expected to offer, to improve its quality of service and overall customer experience; but these are just superficial services. Remember, choosing a bank is somewhat analogous to selecting a spouse and, in both cases, we should not look at outward superficial beauty but inner core and soul qualities for enhanced long-term relationship.

Be Your Own Bank

We saw how a bank with just Rs100 of its own capital collects Rs900 from depositors and uses the entire Rs1,000 in lending and investments. Now, assume that the bank pays you 10%pa (per annum) rate of interest on the deposits and lends and invests money at 15%pa, then its spread or income is 5% (15 – 5). It earns Rs150 (15% on Rs1,000 lent and invested) and pays Rs90 (10% on Rs900 deposits) thus pocketing Rs60 (150-90). Hence, it earns a return on equity for its shareholders at 60% (Rs60 of profit / Rs100 of shareholders' funds). In reality, it is not so straightforward and there are operating expenses and other costs; but the principle is the same.

Yes, with very little capital of its own, a bank borrows money from depositors and lends and invests; thus earning income on that money which is not its own. And the good news is that you can also be your own bank. Confused? Just do what the bank does. Borrow money from the bank at, say, 12%pa and invest it in your business or any other investment yielding, say, 15%pa and pocket the net 3% (15-12). The more money you can borrow and invest in business at higher rate, the more money you can make. Yes, it sounds straight and simple in theory and not easy to apply practically; but it's not that difficult also. Otherwise, so many large business entities would not have been successfully able to follow this principle for years and ages.

Learn before you earn; protect before it's taken away; budget before you spend; save before you invest; create cash flows as you invest; leverage before it grows; insure before you risk; live before you die; and create and be your own bank. Remember, if you can be a depositor in a bank or a borrower from a bank or an employee of a bank a shareholder in a bank, then you can surely 'be your own bank' as well. ■



Mehrab Irani is the author of acclaimed 10 Commandments for Financial Freedom *and best-seller* Mad Money Journey, *India's first finance thriller*

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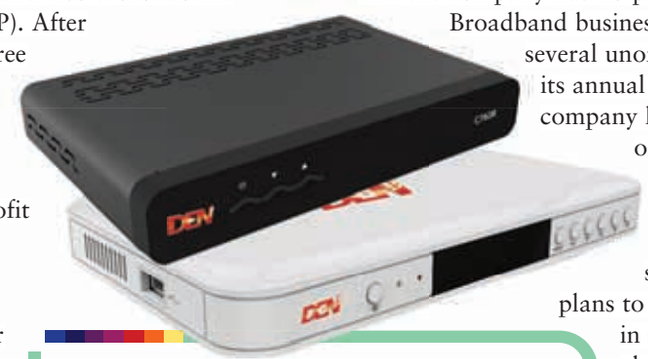
Surprisingly Powerful Growth in a Tough Industry

In a sector where no company has been able to make profits, one company seems to be turning around. DEN Networks (DEN) is a multiple system operator (MSO) or, in layman terms, it is a cable network-provider company and also a broadband Internet service-provider (ISP). After making losses in the past three years consecutively, DEN has started reporting profits since the September 2017 quarter. At the operating level, it started reporting profit since the June 2016 quarter.

For the quarter ending December 2017, revenue increased 9.8% year-on-year (y-o-y), while operating profit margin was 24% compared to 15.7% in the previous corresponding quarter. This is a remarkable jump.

DEN has a customer base of 13 million subscribers across 250 cities and 13 states, viz., Delhi, Uttar Pradesh, Karnataka, Maharashtra, Gujarat, Rajasthan, Haryana, Kerala, West Bengal, Jharkhand, Madhya Pradesh, Uttarakhand and Bihar. It has already converted 11 million subscribers to digital set-top boxes from analogue. In the broadband division, the company has achieved a total of 868,250 home passes, a term which means the total number of homes where ISPs can provide an Internet connection. So, if the company has laid cable over a building, the total number of homes in the building becomes the number of homes passed. This segment is reporting declining revenues quarter-on-quarter (q-o-q) and has reported only losses.

An interesting point is that, with increasing number of subscribers, the average revenue per user (ARPU) from this segment is declining. This shows that the company has no pricing power whatsoever.



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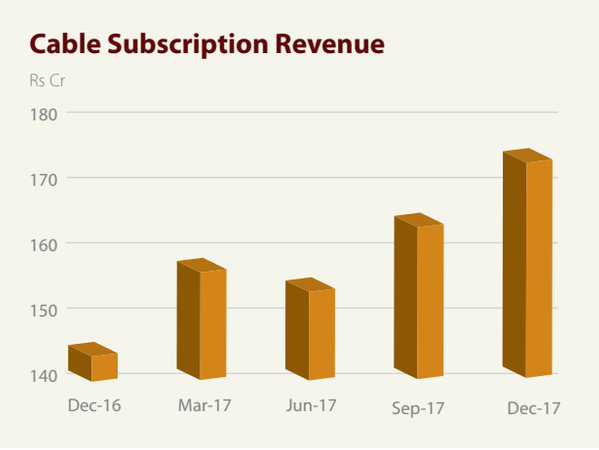
Broadband business is also dominated by several unorganised small players. In its annual report for FY16-17, the company has proposed demerger of this business. However, in an interview with CNBC-TV18, SN Sharma, CEO of DEN, said that the company plans to make an announcement in the coming months about providing broadband Internet to its cable subscribers. Things are not quite clear yet; but, *prima facie*, this seems to be a good plan as the already present cable subscribers will give a boost to the company's revenue from the broadband segment.

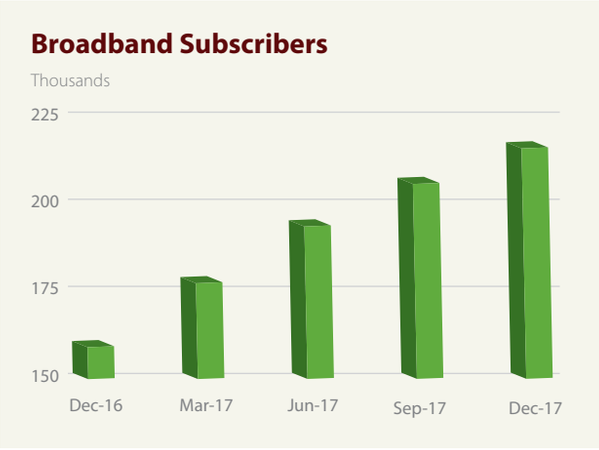
In FY16-17, DEN reported a growth of 35% in its revenue from subscription which forms approximately 50% of its total revenue. This growth rate is due re-packaging of subscription packs in tier-1 cities

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where DEN operates and it can be reasonably said that one can expect to see similar increase in revenue in all the markets where DEN operates. DEN is taking various measures to optimise costs and, hence, improve profitability. Mr Sharma told CNBC-TV18 that the company will add 80,000 new subscribers every month.

He also said that the company will keep delivering a growth rate of 6% to 7% q-o-q. ARPU has doubled for DEN in the past one year, from Rs30 to over Rs70 now. Along with improving operations and better pricing, an initiative by DEN has been introduction of a 4K Android TV Internet box. This is a new trend which has picked up very well in Western countries. This device will host features like Wi-Fi and Bluetooth connectivity, while it will also be compatible with Internet of Things (IoT) devices.

According to data provided by Telecom Regulatory Authority of India (TRAI), as of March 2016, out of 284 million households in India, 181 million have TV sets in homes served by cable TV services, DTH services or IPTV services. This means that TV penetration is 63% and there is still room for companies to grow in this market, especially for MSOs. DEN's annual report says that number of TV households is estimated to reach 203 million by 2021, implying a total penetration of 67%. In the coming years, increasing viewership of regional language channels, compulsory digitisation of distribution, growth in TV households and growth in average household income will be the major drivers of growth.

Television is the most important medium of entertainment in India; its digitisation began in 2012 and progress has been slower than expected. The entire process of digitisation was planned in five phases; phase-1 included top cities like Mumbai, Delhi, Kolkata, etc, and subsequent phases included smaller cities. Within this framework, all cable TV operators were mandated to replace old analogue technology with digital set-top boxes. Phase-1 and phase-2 were successfully completed by calendar year 2013 but digitisation of subsequent phases has been quite challenging.

DEN is the largest cable TV operator in India with integrated service and product portfolio of cable as well Internet broadband. It holds 25% market share in phase-1 and phase-2 cities. It has opportunity to tap in increasing penetration of cable TV across markets. The company has turned itself around from a loss-making company to a profitable one. The current market-capitalisation of the company is Rs2,370 crore while market-cap to sales is 1.85x and price to book ratio is 2.63x. ■

SHRIRAM TRANSPORT FINANCE COMPANY

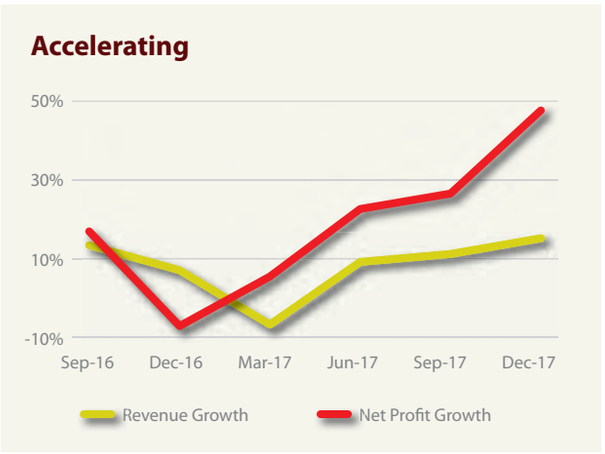
Revving Up Growth

Shriram Transport Finance Company (STFC) is one of the largest companies in asset financing. The main product of this non-banking financial company (NBFC) is funding pre-owned commercial vehicles (CVs). This is done through a countrywide network of over 900 branches, another 850+ rural centres and partnership with approximately 500 private financiers. STFC was struggling for the past few quarters but the business seems to have picked up now. For the quarter ending December 2017, interest income increased 12.8% year-on-year (y-o-y) and net interest income increased 20.8% y-o-y. Net profit grew 43% y-o-y.

The pre-owned CV segment has always been largely unorganised but STFC has been engaged in this untapped segment. This segment has been the

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company's key focus area since inception and it has established its leadership in the segment. It targets the market segment of pre-owned vehicles ageing between 5 and 10 years. The market for financing of pre-owned trucks is under-penetrated; the bulk of it is with private financiers who charge much higher interest rates. These pre-owned trucks, being affordable for small, aspiring owner-cum-drivers, are preferred as they initiate their entrepreneurial journey as small road transport operators (SRTOs). The company empowers such SRTOs and new drivers with affordable financing and advice regarding CVs.

With strong recovery in FY15-16 due to replacement demand, the CV industry started on a strong note in fiscal 2016-17. However, after witnessing healthy growth, the growth momentum slowed down as medium and heavy commercial vehicles (M&HCV) started witnessing sudden contraction. Waning replacement demand, along with uncertainty related to the impact of Goods and Services Tax (GST) on vehicle prices, put brakes on M&HCV sales.

Fleet operators held back their fleet renewal, on expectations that vehicle prices may fall post-GST. After slow growth in the past four quarters, business is picking up again now and the company is back on growth track as can be seen in the graph.

STFC's current assets under management are Rs90,018 crore—an increase of 18% y-o-y. The outlook for CVs is improving due to which STFC has shown better performance. Further, improving macro-economic scenario, pick up in infrastructure and construction activity, strict implementation of overloading norms and pre-buying of CVs before shifting to BS-IV norms in 2020 will fuel growth in company's assets under management. The gross non-performing assets (GNPA) are 7.98% while net non-performing assets (NPA) are 2.45%. These numbers cannot be compared with the previous year's numbers as the method of NPA recognition was changed in March 2017.

STFC has a total of 1,121 branch office across India with 14,497 field officers and more than 1.7 million customers. This market presence is invaluable and has attracted a strategic investor like Piramal Enterprises and passive investors like Government of Singapore, Abu Dhabi Investment Authority, Vanguard Emerging Markets Stocks Index Fund, etc. The current market-capitalisation of the company is Rs31,300 crore. The stock is trading at a price-to-book value (P/B) multiple of 2.5x and price-to-earnings ratio (P/E) of 20x. ■

APAR INDUSTRIES

Unique Strengths but Average Margins

Apar Industries (Apar) is an established manufacturer of conductors, specialty chemicals, cables/wire and automotive lubricants. Apar is involved in manufacturing of conductors since 1958 and specialty oil since 1969. Auto-lubricant and cable businesses are relatively new for the company and started in 2007 and 2008, respectively. For the quarter ending December 2017, revenue grew at 30.6% year-on-year (y-o-y), operating profit fell 8.6% y-o-y and net profit fell 8.9% y-o-y.

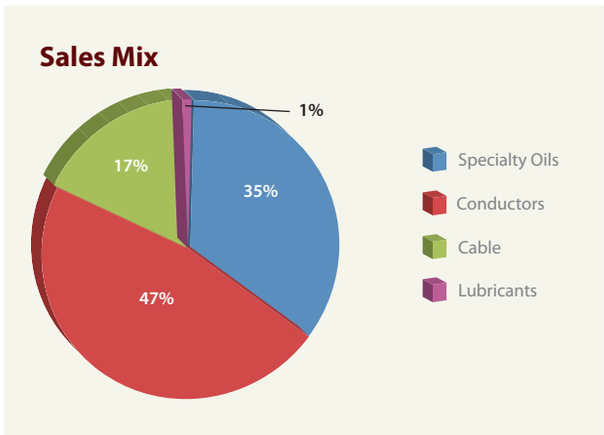
Apar is one of the industry leaders among conductor manufacturers. With installed capacity of 180,000MT (million tonnes) and a market share of 23%, this segment contributed 46% of revenues for the December 2017 quarter. Similarly,

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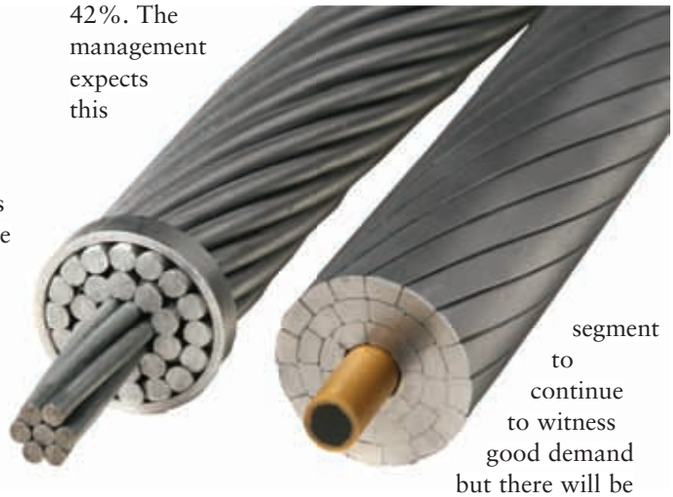
specialty chemicals, with an installed capacity of 542,000kilolitres and market share of 45%, contributed 35% of revenue. Cables segment contributed 18% of revenue while auto-lubricants contributed 5% of revenue.

The past four years have been quite sluggish for Apar, but the situation seems to be changing now as the company recorded a good growth rate across the segments in the December quarter, though there is pressure on margins as yet, the reasons for which are discussed below. In the conductors segment, the company reported an increase of 25% y-o-y in revenue while EBITDA (earnings before interest, tax, depreciation and amortisation) declined 48% y-o-y, even though the increase in volume was 9% y-o-y.

This decline in profit was due to increase in costs of raw materials, pricing pressure due to competitive environment and sluggish demand from new inter-state transportation lines. Apar's order-book stood at Rs1,531 crore for conductors—an increase of 9% compared to the previous quarter's. The company is expecting substantial new orders in this segment which will help improve capacity utilisation of its plants. The management has given guidance for a strong pipeline of prospects for high efficiency conductors (HEC) which has been sluggish in current quarter but can be expected to improve in the next fiscal. Out of the total revenue, 48% was accounted for by exports.



Specialty chemicals consist of industrial processing oil, rubber processing oil, white oil, industrial lubricants, etc. This segment grew at 34% y-o-y with EBITDA also increasing at 21% y-o-y. Though EBITDA margin declined from 9% to 8.2%, volume increased at 16% y-o-y. The cable segment witnessed a 36% y-o-y increase in revenue while EBITDA grew 42%. The management expects this segment to continue to witness good demand but there will be pricing pressure on products due to competition.



The company is witnessing volume growth across segments, but it has no pricing power whatsoever. Margins are under pressure across the segments and this will be a hindrance to profit growth, going forward. Management has given guidance for top-line growth but the steps to make the company more profitable have not been outlined.

> For the better part of the decade, Apar has reported operating margins in the range of 6% to 8% and net profit margin between 2% and 3%. The return on equity is 18.6% while net profit to capital employed is around 14%

For the better part of the decade, Apar has reported operating margins in the range of 6% to 8% and net profit margin between 2% and 3%. The return on equity is 18.6% while return on capital employed (net profit to capital employed) is 14%. Even with the high growth rate in sales in the December 2017 quarter, profitability remains the same. In an industry with little or no product differentiation, this situation is not likely to change in the near future.

The current market-capitalisation of the company is Rs2,800 crore and the price-to-earnings ratio (P/E) of the company is 19.5x. This valuation seems to be fair and can be expected to improve only if the company acquires pricing power. ■

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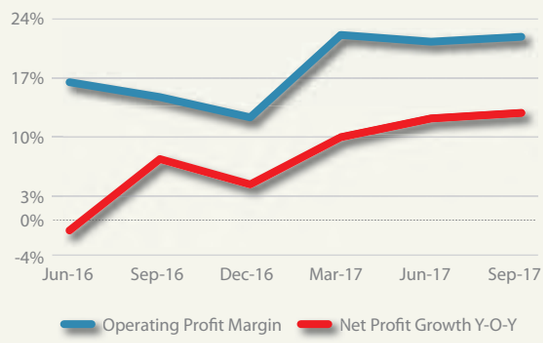
TEJAS NETWORKS

Can It Grow Outside India?

Tejas Networks is an optical and data networking products company. It manufactures and sells carrier-class equipment required for building telecom networks. The company's products are essential for high-speed communication networks that carry data, voice and video traffic for mobile devices used by telecom service-providers, utility companies, government & defence entities and Internet service-providers (ISPs). For the quarter ending December 2017, Tejas reported a decline in revenue of 14% year-on-year (y-o-y) while, on account of improving operating margins and low base effect, operating profit increased 57.5% y-o-y and net profit increased 158% y-o-y. The decline in revenue was due to delay in order for Bharatnet Phase-2 project. Bharatnet, or national optical fibre network (NOFN), aims to connect all the 250,000 *gram panchayats* in the country with up to 100mbps (mega bits per second) optical fibre connectivity.



Improving Profitability



The product portfolio of the company includes access, metro and long-haul networks. Access refers to telecommunications network which connects to end consumer; metro network aggregates and distributes traffic collected from access networks within a large city or region and long-haul network interconnects metro networks with high bandwidth transmission. These products have their application in mobile network and fixed-line network back-end systems, enterprise leased lines services, data centre interconnects, etc. These are used in base stations and exchanges, on customer premises as well as at the point-of-presence (POP) sites of a metro, state-wide or national network. The company's optical transmission equipment can address bandwidth requirements starting from mega-bits up to tera-bits.

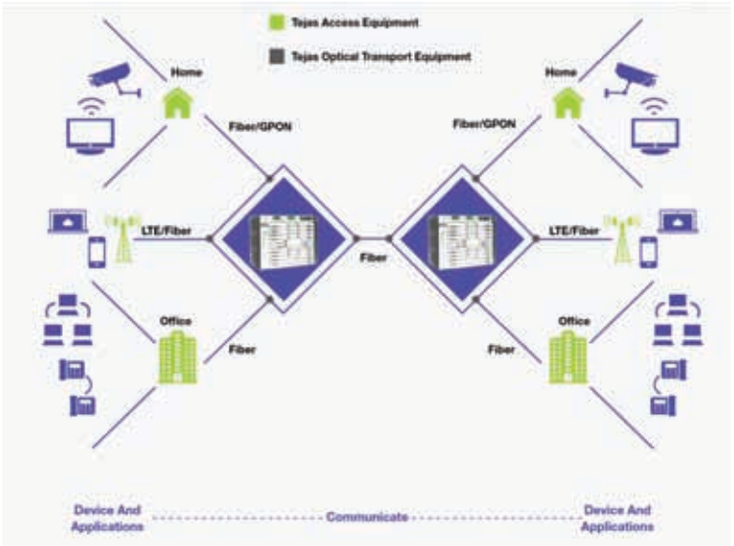
Tejas has grown its revenues at a compounded annual growth rate (CAGR) of 36% for the past five years. This high growth rate was fuelled by Bharatnet project, increase in data consumption in India, upgradation to new mobile connectivity technologies such as 4G, etc. Today, telecom operators have to incur capital expenditure to keep their networks up-to–date, to cope with high demand in data. This is what drives Tejas's business. The company expects to sustain this growth momentum because India is the fastest growing market for optical fibre networks in the world. In its investor presentation, the company has highlighted various points which will further help it maintaining the growth momentum. The company expects to benefit from increase in demand for data in India and for which it is investing in its sales force. It is also increasing its investment in sales force in emerging markets, such as Africa, South-East Asia, and also in US. Tejas is also investing in research and development (R&D) to enhance its current product portfolio for higher capacities. The company claims to be ready to leverage on the opportunity of network-modernisation in US. Tejas has set up operations in US in the past six months, according to the conference call held by the management recently. Ovum, a specialist in IT consultancy, has ranked Tejas as the Number-1 company, in terms of market share for 'optical aggregation' in India.

The telecom market of India is a highly competitive one which has led to lower profitability overall. This means that Tejas's customers are having a difficult time and, at any time, these companies will try to squeeze out its suppliers; such a risk cannot be mitigated easily. But, given the proven track record of the company in

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the past and having established itself as a company with highest market share (exact data not available), one can have some confidence that the management will be able to maintain the growth momentum, especially if it expands overseas.

Tejas has generated a return of equity of 14.7% and return on capital employed (net profit/capital employed) of 15%. The leverage ratio is 0.5 but this is acceptable as borrowings are only short-term in nature and are mostly working capital loans from banks. Both, operating and net, margins have improved significantly in the past five quarters.



The current market-capitalisation of the company is Rs3,340 crore while the stock is trading at a price-to-earnings (P/E) multiple of 28.7x and market-cap to sales of 3.6x. With improving profitability and high growth rate, the stock should do well over the coming years. ■

KAJARIA CERAMICS

No Growth

For the quarter ending December 2017, Kajaria Ceramics (Kajaria) reported a growth in revenue of 9% year-on-year (y-o-y) while operating profit declined 2.4% y-o-y and net profit also declined 1.5% y-o-y. Profit growth was subdued even after the increase in revenue, due to decline in margins. The operating margin for December 2017 was 16.6% compared to 18.6% for the corresponding quarter in the previous year.

Kajaria is India's largest manufacturer of vitrified tiles. It has a production capacity of 68.4 million square meters per annum (msmpa). The company has eight manufacturing plants located in Uttar Pradesh, Rajasthan, Gujarat and Andhra Pradesh. According to the company's recent investor presentation, the subdued margin was due to increase in cost of gas and production not being at an optimal capacity. Companies across this sector are witnessing low growth and Kajaria is no different. The graph below shows how poorly Kajaria has performed in the past few quarters. There has been no growth in operating profit; in fact, it has gone down.

One of the reasons for Kajaria's poor performance is the pressure on real estate industry hit hard by a liquidity crunch, especially since demonetisation. Companies like Kajaria, whose sales depend on the





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realty sector, have been affected. Similarly, Goods and Service Tax (GST) on tiles was set at 28% compared to earlier value added tax (VAT) of 12% to 14%. This led to increase in cost for customers and, hence, organised sector players suffered. However, the government has reduced GST from 28% to 18% in November 2017; this is a positive but the management of Kajaria says this will not help in growth but will surely help attract customers towards branded products as the price difference between branded and unbranded tiles will be marginal. Government's push for affordable housing may support the industry. Despite sluggish growth, Kajaria's management is, obviously, bullish for the long term. It is planning expansion of capacity of its polished vitrified tiles of at the existing plant (Malutana, Rajasthan) by adding 5.6msmpa. This will be commissioned in FY18-19. Investors' expectations are high too; despite no growth for almost three years now, the stock is quoting at a valuation of over 40x of its past 12 months' trailing net profit. ■

GODREJ PROPERTIES

Skyscraping Valuation

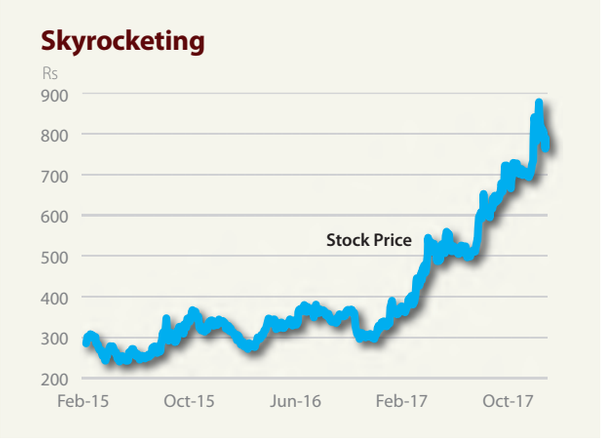
Godrej Properties Limited (GPL), established in 1990, is a real estate developer, mainly of residential projects. GPL has a focus on cities like Ahmedabad, Bengaluru, Mumbai, Pune, NCR (National Capital Region), Hyderabad and Kolkata. GPL's land bank includes those purchased by itself a well as those bought in joint ownership with revenue- or profit-sharing. For the quarter ending December 2017, GPL reported 21% year-on-year (y-o-y) growth in revenue.

Sales bookings in the December quarter grw 76% y-o-y, backed by three new launches in Noida, Mumbai and Bengaluru. A major contributor to revenue growth



during the quarter was sales in the commercial segment at the company's Bandra-Kurla Complex (BKC) project in Mumbai. GPL sold 123,470 square feet (sq ft) for Rs425 crore and now has an inventory of only 51,000sq ft. Total area sold during the quarter was 20% higher than in the corresponding quarter of the previous year.

GPL is continuously scaling up its operations with new launches; in the current financial year alone, nine new projects are to be launched; these are pending for regulatory approvals. Demand growth in affordable housing is also another stimulus for



GPL, with government pushing the segment through interest subsidy. Another positive for GPL is the Real Estate Regulation Act (RERA) under which organised and large players can have a competitive edge against the unorganised sector. Also, opportunities for new projects are expected to increase significantly. Godrej is a well-known consumer brand across India and the company will leverage this. In an industry known for sharp practices, GPL has the benefit of drawing upon Godrej's commitment to business and reputation.

Though there are many tailwinds, growth can be hindered for various reasons. Real estate companies require many regulatory approvals for their projects; any delay in such approvals can slow down project launch as well completion. Also, the business is highly competitive. Even a well-run company like GPL generated a return on equity of 10.3% and return on capital employed (net profit/capital employed) of only 3% last year. But, with high growth expectations from market, the stock price has rallied quite a bit in the past one year. The current market-capitalisation of the company is Rs17,100 crore while price-to-earnings ratio (P/E) is 110x and price-to-book ratio is 8x. These seem to be very high and the market has already priced in high growth expectations from this company. ■

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RAMKRISHNA FORGINGS

Forging Powerful Growth

Ramkrishna Forgings (RKF) has reported excellent growth in its December 2017 quarter. Year-on-year (y-o-y), revenue growth was 88%, operating profit growth was 90% and net profit grew 1314%. In our article "Ramkrishna Forging: Forging a Burst of Growth" (*Moneylife*, 22 December 2017), we had discussed how the company was turning itself around. With new value-added products and excellent financials, the company was ready for a high growth phase. As evident from the December quarter results, the company has continued to do well.

This high growth was led by domestic as well as export sales which grew y-o-y at 77% and 91%, respectively. The demand uptick in commercial vehicles is one of the major contributors for the high growth rate. The operating profit margin was constant at 20% as it was in the previous quarter. Further, the price hike in commodities is being passed on to customers after 1 January 2018, so the management expects the margin to improve further. Domestic and export realisations improved y-o-y by 8% and 19%, respectively. RKF also installed new manufacturing capacity (press-line) recently, whose utilisation stood at 54% during December 2017 quarter; this utilisation is also expected to improve further.

RKF is shifting its focus to exports where realisations are better. The improved product-mix will further perk up operating margins. The demand growth in commercial vehicles will fuel RKF's high growth rate. The new press-line capacity utilisation will also help in maintaining high growth rate. RKF's current market-capitalisation is Rs2,500 crore and the stock is trading at a price-to-earnings (P/E) multiple of 35x. While the stock is expensive, as with many high-growth rate companies, it will do well, if the company is able to maintain the growth momentum. ■

MARKET TREND

Reality Strikes

Just the last fortnight, I was discussing Jeremy Grantham's view that the US markets were on the threshold of a melt-up, or blow-off, phase; after a long bull market, even they were one of the highest-priced markets in history. Following this melt-up, there would be a crash. However, after rapidly accelerating all of January, from around 24,750 to 26,660, the Dow Jones Industrial Average has stumbled badly. From a peak of 26,616 made on 26th January, the Dow slumped to 23,778, or 10.6%, in just seven trading days. It has suffered two 1,000-point swoons (that is more than - 4%) within a week, in a space of four days.

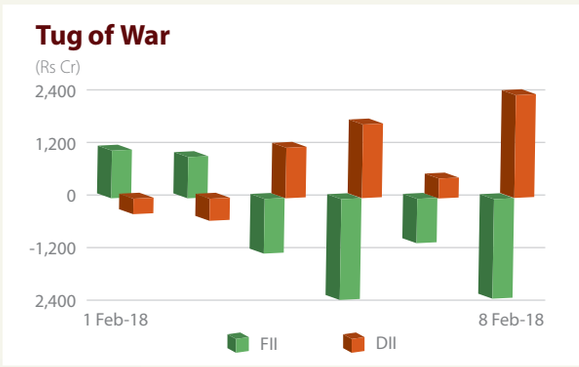
Coincidentally, the Indian market was also under pressure after the government brought in long-term capital gains tax on equity transactions. A global sell-off came exactly at the same time as the tax change. The Sensex, which had hit 36,444 on 29th January, careened all the way to 33.483 intra-day, a fall of 8%. Did Grantham's melt-up scenario end too soon? Or is this just the decline that was needed for the market to shake off weak hands and gather strength for a much longer leap later?



This is hard to say. On the one hand, there is nothing on the horizon (like the slow-motion subprime crisis that unfolded in early 2008) to trigger a major crash. There are no visible excesses in the real US economy. Indeed, the economy is strong; corporate results are better; and unemployment is at a 45-year low. All that seems to be happening is a panic reaction to something that the market has not seen in a while: near-full employment, rise in inflation and a higher bond yields. This leads market-players to fear that a cycle of higher interest rates would start soon. That is bad for stocks. What certainly does not help is the fact that the US market, as also the Indian market, is expensive by historical standards. We expect the market to remain under pressure, for a while.

*— **Debashis Basu*** ■





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3 Long-term Stockletters
for Excellent Returns

Panther
64.89%*
(includes dividend)



*Annualised. Since 25 April 2014

For small-cap/ low-price stocks with big growth potential

- A shortlist of stocks to invest in
- Fundamental data we rely on
- Brief description of the companies
- Weekly updates on all stocks

Antelope
39.88%*
(includes dividend)



*Annualised. Since January 2012

Long-term value stocks. More of mid-cap stocks to be held for 1 year or more

- Weekly market view
- A shortlist of stocks to invest in
- Fundamental data we rely on
- Weekly updates on all stocks

Lion
34.25%*
(includes dividend)



* Annualised. Since January 2012

Long-term value stocks. Usually large companies are selected

- Weekly market view
- A shortlist of stocks to invest in
- Fundamental data we rely on
- Weekly updates on all stocks

Facts about the Stockletters

What is the difference among these stockletters?
The stockletters are for stocks for long term but with specific emphases. We hope to have a maximum of 25 stocks at any time.

What is the investment horizon for these stockletters?
The best results from good stocks come when they are held for five years or more.

What is the investment strategy?
Our investment strategy for the long-term stockletters is to select quality stocks at a reasonable price. We identify companies that are reporting high return on capital but are available cheaper than similar high-quality stocks. We then apply our knowledge of managements, including corporate governance.

How much should one invest in each stock?
You should invest equal amount in every single stock suggested.

What if I cannot invest in all the stocks?
If you cannot invest in all the stocks, invest equal amounts in as many stocks as possible, starting from the lowest in rupee terms to the most expensive in ascending order. It is also very important that you invest in stocks ONLY the money you will NOT NEED to touch for the next 5 years. Good quality stocks are likely to grow at 20%-22% annum but not in a smooth fashion.

If some stocks have already run up sharply, will it be wise to invest in them still?
These are all excellent stocks we have selected in long -term stockletters. We separately identify stocks that are still worth buying at current prices even if they have run up sharply. You must remember though that stocks may go down after your purchase. That is the nature of stocks. So it is important to follow these two principles about stock investing 1. Investing only that money you will not need for 5 years 2. Not looking at the share price in the short term.

How do we know when to exit from the stocks selected?
Exit suggestions are spelt out clearly every week.

How many stocks are changed every week?
Our list of long term stocks do not change much. Deletions are usually made after one year, if the performance is not too good. This also helps one avoid short-term capital gains. We may add a new company after several weeks. If the market crashes we may suddenly add many more names.

How much do the stockletters cost?
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Tax *Adda* with CA Ameet Patel

Our builder has given compensation for delay in handing over the apartment. He wants to cut 10% as tax deducted at source (TDS), which means I am bound to pay additional 20% while filing returns. I received Rs1 lakh as compensation from the builder but may have to pay additional tax. Kindly clarify the rules.

Ameet Patel's Reply:
There is no rule that deals with this. One has to follow the normal provisions of the Income-tax (I-T) Act. This is a highly debatable issue. According to the I-T Act, revenue receipts are taxable and capital receipts are not taxable. In this case, we will have to determine whether the amounts which we have received are capital in nature or revenue. If it is revenue in nature, it has to be offered to tax under the head 'other sources'. If it is capital in nature, it need not be offered to tax.

What is most important in such a case is the agreement between the buyer and the builder. One will need to see how the clause relating to the payment of interest is worded. If the compensation is in the nature of interest, then it is clearly taxable. If it is worded in a manner that it is a compensation for hardship caused due to the delay, then there is a possibility of arguing that it is not taxable. However, if the builder deducts TDS from it, then it will be very difficult for you to convince the tax officer that it is not taxable.

I am a state government employee and invest in stocks. I had a loss on sale of stocks that I declared in income-tax return (ITR) 1. Do I have to file any other ITR and is offsetting loss of stocks under the head 'income from other sources' in ITR1 correct?



Ameet Patel's Reply:
Loss on sale of stocks will come under the head 'capital gains' and ITR2 has to be filed (for individuals not carrying out business or profession) since ITR1 is for people who have income from salaries, one-house properties, other sources and have total income up to Rs50 lakh. Thus, for those with capital gains, ITR1 is not the right Form.

As per Section 72, long-term capital loss can be set off only against long-term capital gains and short-term capital loss can be set off against any capital gain (both, short-term and long-term). Unabsorbed loss of one year can be carried forward to the next year, provided the tax return is filed in time. Carry forward is allowed up to a maximum of eight subsequent years.

I am doing futures & options (F&O) trading, besides a regular job. Since trading in F&O is considered business income, to get tax rebate, can I pay monthly salary to my wife who is assisting me in trading? To claim tax on salary paid as business expenses, is the bank statement of money transfer itself is enough? Or is there any other formality to be maintained?

Ameet Patel's Reply:
In any business, one can claim genuine expenses incurred in the ordinary course of business. These expenses have to be revenue in nature and also reasonable. When a payment is made to a close relative, the onus of proving its genuineness and reasonability is totally on the payer. It is only natural that any tax officer will look at it with suspicion.

As regards the documentation, like any other expense, it would always be advisable to pay the salary by account payee cheque. Secondly, you will need to maintain books of account and may also need to get them audited under Section 44AB of the I-T Act, if certain conditions are satisfied by you. This is not as simple as you have taken it to be. Please do consult a chartered accountant (CA) about this. There is also an issue of presumptive taxation under Section 44AD. You have got to be very careful about this. ■

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Yazdi Tantra is a chartered accountant by training, computer consultant by profession, entrepreneur-developer by hobby and trainer in his leisure time. He is currently the vice-chairman of Zoroastrian Co-operative Bank Ltd and has been running a medium-sized computer company ON-LYNE for the past 24 years.

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How Scientific Is Western Medicine?

Clinical trials are research studies that aim to establish whether a medical strategy, treatment or device is safe for use or consumption by humans. These studies may also suggest which medical approaches prove most effective for specific conditions or groups of people. They advance medical knowledge. Clinical trials are the cornerstone of Western medicine. They provide the most reliable data to assist in healthcare decision-making.

Such trials start with small groups, initially, to examine whether a new method causes any harm or unsatisfactory side-effects. This ensures safety for participants. Often, a technique that is successful in a laboratory or on animals may not be a success in humans; animal studies may also prove dangerous when extrapolated to humans. But scientists, pharma companies and health professionals have immense faith in this evidence and so do many doctors who do not go deep into researching such 'evidence-based' approach.



If you go deep, you may find many flaws in the evidence. For one, the studies are very short-term and are cross-sectional. They very wrongly assume that one size fits all; while, in reality, no two human beings, even twins, are alike and can be compared. Long-term observational studies are much more reliable. The so-called double blinding is a trap. The interaction between the consciousness of the subject and the researcher is now well established. All these, and more, made Sir Michael Rawlins, the chief of National Institute of Health & Care Excellence (NICE), UK, say that randomised control trials have been wrongly given a high priority in medical research. In addition, the very short duration of these cross-sectional studies may lead to even the dangerous side-effects being unrecognised making adverse drug reactions a serious problem with Western medicine.

Western science has no other option to offer and long-term observational studies are too cumbersome and expensive to the pharma lobby. In addition, audits show that industry-funded studies come up 95% of the time with positive outcomes. When the same study is replicated with independent funding, the positive results decline to 15%. Most of the evidence gathered is funded by the industry. In addition, many of these reputed researchers have financial ties with the industry. So much for its authenticity! The further details of industry influence of our evidence gathering is available in this classic by the former editor of the prestigious *New England Journal of Medicine*, Dr Marcia Angell, *The Truth about Drug Companies - How they deceive us and what to do about that*.

In addition, the American guidelines committees further complicate the picture. The blood pressure guidelines are a good example. The guidelines recommend putting patients on medicine to control hypertension at a much lower blood pressure level (when no drugs should be used below 159/99). This allowed the industry to laugh all the way to their banks as it brought millions more people in their net to deal with their imaginary hypertension.

Diabetes, which has been now shown to be easily curable, was shown to be non-curable by the industry to sell drugs life-long! For making money, they peddle all lies in the medical field where death is only a statistic and human life is cheap. With this background, one could easily understand how the so-called proof of the effect of Western medicine can be relied on. The evidence can be easily manufactured at will.

Ayurveda is much more reliable, based on thousands of years of observational research. We should also remember the saying that absence of evidence in no evidence of absence. That apart, even if all the above-mentioned drawbacks could be rectified, we are still left with the main problem of not being able to club people together as cohorts for comparison. There is no better method other than longitudinal observational studies. But, recently, there even was a suggestion to pool anecdotal experiences together to avoid expensive time-consuming longitudinal studies! ■



Professor Dr BM Hegde, a Padma Bhushan awardee in 2010, is an MD, PhD, FRCP (London, Edinburgh, Glasgow & Dublin), FACC and FAMS. He can be reached at hegdebm@gmail.com

Health.indd 2 08-02-2018 12:27:48

The 'Big Food' that Makes Us Sick

Quick, are these statements true or false?

- Oatmeal is a healthy breakfast and prevents heart disease.
- Butter causes heart disease.
- Egg whites are healthier than whole eggs.
- Red meat causes cancer.
- Gluten-free food is healthy.
- Dairy is necessary for kids to grow and to prevent broken bones as we age.
- Yogurt is a healthy breakfast.
- Zero-calorie sweeteners help you lose weight by cutting calories from your diet.

Guess what? Every single one of those statements is false! But why do we consider most of them to be true? It's not our fault. The orthodox healthcare establishment generates and supports such misinformation—all in the name of science. Dr Mark Hyman, medical director at Cleveland Clinic's Center for Functional Medicine, and a ten-time #1 *New York Times*' bestselling author, physician to the likes of Bill Clinton, says that such false information is, by design, the joint work of the food industry, the government and the media.



"Money is corrupting science, our government's food policies, and the media," writes Dr Hyman. "There is a multi-trillion dollar global food industry that is growing, processing, manufacturing, marketing, and serving food like substances that are making us sick and fat. They are cheap to make, and rake in big profits for Big Food."

The food industry is the main source of money for research scientists. "If a food industry company sponsors a study, that study is 8-50 times more likely to show benefit for their product or ingredient," writes Dr Hyman. So, dairy industry studies find that milk is good for you while American Beverage Association funds studies to show that soda has no link to obesity. Studies from independent researchers prove that soda and sugar sweetened beverages are the number one cause of obesity. The American Beverage Association also funds the public advocacy groups which, not surprisingly, oppose the sugar tax.

The US food industry includes: seed producers, factory farmers, food growers and the processed food and fast-food industries. They spend millions of dollars each year to influence policies, with heavy lobbying, the department of agriculture—the same agency is in charge of dietary guidelines as well as deciding which crops US tax dollars subsidise.

In 2017, the National Academy of Science found that the process for coming up with the dietary guidelines was corrupt and influenced by industry while ignoring many relevant research studies. This is how corn (high-fructose corn syrup), wheat (refined white flour) and soy (refined soybean oil)—all three products that are bad for health—get 99% of the government's food subsidies.

Meanwhile, only 1% of the subsidy goes for 'specialty' crops. Guess what these are? They are fruits and vegetables. Yes, fruits and vegetables, the best thing for us, are 'specialty crops' of which the government tells you to eat 5-9 servings a day. "Since the 1970s, the price of soda has gone down 40% while the price of veggies has gone up 40%," points out Dr Hyman.

To get people to understand what exactly they should be eating, Dr Hyman, the author of the bestseller *The Blood Sugar Solution*, has come up with a new book *Food: What the Heck Should I Eat*? which promises to fix your confusion and provide a clear roadmap to eating the right food. The right food is the single biggest thing you can do to prevent heart disease, type-2 diabetes, cancer, dementia, auto-immune disease, allergies and digestive problems, points out Dr Hyman. In the book, he explains what is healthy in each group of foods we eat—meat, poultry and eggs, dairy, beans, grains, veggies, fruit, nuts and seeds and beverages. ■

Health.indd 3 08-02-2018 12:28:30

Don't Get Greedy Before Consumer Courts

The Consumer Protection Act, 1986 (COPRA) was enacted keeping in mind the fact that an ordinary consumer seeking redress is no match for large companies. Hence, it offers easy and cost-effective redress through a three-tier system for filing complaints, each with a specific financial jurisdiction. There is a district consumer forum that hears claims of up to Rs20 lakh, the state commission hears cases from Rs20 lakh to Rs1crore and the National Consumer Disputes Redressal Commission (NCDRC) hears claims above Rs1 crore. Appeal against NCDRC's orders lies with the Supreme Court.

It is not uncommon for consumers to inflate claims in order to approach the state commission or NCDRC directly. But the case of Captain GN Venkat Rajaram and his wife shows that this can lead to ignominious consequences. NDCRC decided this case on 16 January 2018 (Case No. 3247 of 2017; Captain Venkat Rajaram & Anr. *vs* American Airlines, British Airways & Oths).



Captain Rajaram, a senior citizen of high social standing, had been a mariner who had travelled around the world. His wife, G Andal Rajaram was also well-educated and had a long record of working for various social organisations. In recognition of their contribution to society, especially the world-renowned eye hospital, Sankara Nethralaya, they were invited to a high-profile fund-raising event organised by the United Nations Organisation at New York. It would have funded 3,500 free cataract surgeries for India's rural poor. The couple was eagerly looking forward to participating in this invitee-only event.

On 15 August 2016, the couple reached LA to board the connecting, American Airlines Flight No. 1910 to LA. They were cleared for boarding the flight after the requisite security checks. However, just before boarding, the airline announced that the flight was overbooked and passengers carrying more than three pieces of hand-luggage or heavy hand-baggage should check it.

The Rajarams only had one small hand-baggage each. The staff divided passengers into four groups and the Rajarams were in the fourth group. When it was their turn to board, an airline official allegedly stopped them from boarding, claiming there was no space for their hand-luggage, but two other passengers with large hand-baggage were allowed to board, instead. Eventually, the flight departed without them and the Rajarams ended up spending the night at the airport and had to travel to New York the next day. Consequently, they ended up missing the inaugural ceremony of the event and reached only at 6.30pm.

Their complaint before NCDRC accused British Airways and American Airlines of misuse of dominant market position, service deficiency, unlawful/unethical acts, extreme mental agony, as well as racial discrimination against them. Their claim for damages, made before the NCDRC, was as follows:

a) Refund of travel cost from LA to New York, since it did not happen as scheduled;

b) Rs3 crore compensation for gross deficiency in service and indulging in unlawful and unethical conduct;

c) Rs2 crore compensation for extraordinary mental agony caused to them;

d) Rs2 crore compensation for failure to have systems and arrangements with partner airlines to ensure seamless travel and avoid problems arising out of internal policies.

In effect, the Rajarams sought a total compensation of Rs7 crore, in addition to the refund of their LA-New York ticket.

NCDRC heard arguments on calculation of compensation at some length and concluded that the claims were without any sound basis and had been exaggerated to invoke the apex forum's jurisdiction. In fact, it expressed the fear that admission of complaints with inflated claims could lead to forum-shopping, with serious consequences. It also referred to Supreme Court cases where such claims were rejected by the apex court. The case was dismissed with liberty to the complainants to approach the appropriate consumer forum with suitable amendments.

This case demonstrates that it is best not to go on an ego trip while seeking compensation because inflated claims without plausible justification will not be entertained by consumer courts. ■



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Legally Speaking.indd 2 09-02-2018 14:15:36

State-sponsored Hacking

Hackers are everywhere and include governments as well. So be very careful before even thinking about sharing your personal information, advises **Yogesh Sapkale**

We assume that governments have legitimate reasons for getting access to personal data, like controlling crime, fighting terrorism and regulating borders. We also assume that citizens have a right to expect privacy in their personal data and, thus, policy-makers should seek to satisfy both, law enforcement and privacy concerns, without unduly burdening one or the other. However, most of the time, governments are ready to compromise privacy and security of not only citizens but also corporates and, sometimes, other governments as well. What is worrisome is the increased use of hardware breaches for such activities sponsored by the government.

In a recent stunning investigation, French newspaper *Le Monde* (https://goo.gl/R5YUs9) exposed how China gained uninterrupted access to all confidential information from computer networks of the African Union. 'The African Union's shiny new headquarters was built and paid for by the Chinese government, as a gift to its 'African friends'. But when the building was officially opened in 2012, China left a backdoor into the African Union's computer network, allowing it to access the institution's secrets at will,' the report says. A backdoor is a method, often secret, of bypassing normal authentication or encryption for remotely accessing a computer system, a product, or an embedded device.



African Union Headquarters, Addis Ababa

Technicians working in the African Union noticed a strange peak in data usage, between midnight and 2am, when the entire building was almost empty. When they traced it further, they found all their data was sent to servers in Shanghai. "According to several sources within the institution, all sensitive content could be spied on by China," wrote *Le Monde*. "It's a spectacular leak of data, spread from January 2012 to January 2017."

Following the exposé, the African Union bought and installed its own servers and started encrypting all communication. With the help of experts from Algeria and Ethiopia, they searched every nook and corner of the building for possible hidden devices and patched all other weakness in their systems.

A few years ago, even in India, mobile service-providers raised concerns over sourcing critical equipments from Chinese vendors. But such voices were suppressed either through warning or financial aid provided by the vendors. Given that the Chinese government has cyber-war as its high-priority strategy, and given that it gives millions of dollars in aid and subsidy to domestic vendors, there is every reason for buyers to be suspicious of these products. Add to this, we are complacent by nature. Most users are reluctant to change default passwords of their home router, Wi-Fi and mobile devices. And this includes businesses as well.

There are some basic precautions we can take to keep ourselves safe and secure in the ever-dangerous cyber-world. Always think of all software as Swiss cheese—full of holes. And makers release patches just to cover the exposed holes in the codes. But such patches are essential. So, update all software and apps that you use and do it regularly. Better keep updates on auto mode. Every few weeks or month, review software and apps installed and delete those you have not used in a while or which are not being updated by their makers. No point in clinging to such outdated piece of code on your devices.

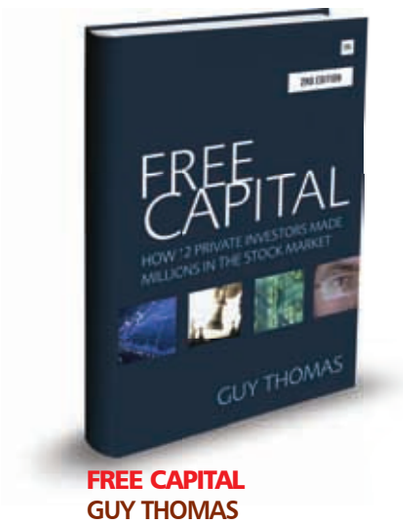
Create and use robust, long and unique passwords through pass-phrases. If you are not comfortable with this, take help from a password manager. There are several open source password managers (like Password Safe, KeePass or LastPass) that can generate good-quality passwords without the need for you to keep remembering them. Restrain from leaking, or sharing, personal information in the public domain and, if at all it is a must, then share information only on a 'need to know' basis with anyone—be it the government or any private entity. ■

Technology.indd 1 09-02-2018 14:14:29

FREE CAPITAL

Inspiring Stories of 12 Stock Investors

Most books on successful investors are either by big traders or investors who run large money management accounts or focus on their successes. Peter Lynch ran one of the largest funds when he retired from Fidelity. Warren Buffett has grown super rich by investing the float from an insurance company he owns. The multiple volumes on wizards (Market Wizards, Stock Market Wizards and Hedge Fund Wizards) of Jack Schwager are mostly about traders and investors running books of hundreds of millions of dollars. While aspiring investors can undoubtedly learn from these stories, they cannot really connect their personal struggles with them.



FREE CAPITAL
GUY THOMAS
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All of us want to know about small private investors who multiplied their own funds using their wits. This is precisely the book for the likes of us. Except one or two investors profiled in the book, who had a bit of connection and small pot of money, all were average middle-class people with limited means. At least seven, of the 12, struggled with their jobs and career and had the guts, determination and passion to opt out of their career.

This is where this book helps. Guy Thomas has profiled 12 private investors from England in his book *Free Capital*, which is available from Amazon at a throwaway price. All of them have accumulated £1 million or more—in most cases much more—mainly from stock market investments. Six of them have accumulated £1 million or more "in a tax-free Investment Savings Account (ISA), which is arithmetically impossible without exceptional investment returns," writes Thomas. Each chapter is about one investor and narrates their backgrounds, what got them interested in the stock market, at what point they decided that they don't need to work anymore, a bit about their personal lives, their major hits and misses and how they spend their days now.

There is little in common among the 12. All of them come from different backgrounds. Two have higher degrees in computers; one, called Sushil, is a trained economist; two have business school degrees and John Lee is a chartered accountant. Many others have left school with few qualifications and are entirely self-taught. Only two of them revealed their identities. Two others have serious health issues. Taylor suffers from chronic fatigue syndrome, also known as myalgic encephalomyelitis (ME), which makes him housebound for long periods. He had to leave school at 16. Sushil has undergone 15 orthopaedic surgeries in 25 years.

The most accomplished among them is John Lee, who is a politician, a former Conservative Party member of parliament who was even a minister in departments of defence, employment and tourism. For 15 years between 1997 and 2012, he wrote the"My Portfolio" column for *Financial Times*. One of them is an activist investor. Some like to interact with the management and attend annual general meetings. Others stay away and just go by the numbers. Just one of the 12 is a trader and a day-trader at that! Most of them are stock-pickers. The only common thing I could find among them is that they have made money mostly by buying high-quality small-cap stocks and holding them for years.

Why the title *Free Capital*? It is free financial surplus over and above the living expenses that is the raw material for these investors. It also describes the freedom which investors enjoy from the drudgery of conventional careers. This is the most important take-away from the book that should be conveyed to non-investors. Most of the investors profiled got to a million pounds in less than 20 years of investing. That even 10 years of thoughtful and systematic investing can change your life radically is one of the best-kept secrets of the world.

As Thomas so eloquently puts it: "Personal investing requires no deference, self-promotion, management skills or tact; it requires only a few good decisions. It is a field where outsiders can excel: an individualistic game loosely defined by rules which are sufficiently static to make experience valuable, but also sufficiently fluid to keep the game interesting." I have not come across anyone saying any of this as a life advice, especially to the youth who are rebellious by nature and who have time on their side to create amazing wealth, all with their acumen. If you wanted proof and inspiration that this works and could convert school dropouts, chronic patients and rank outsiders into fabulously wealthy people, read this book. Highly recommended. — ***Debashis Basu*** ■

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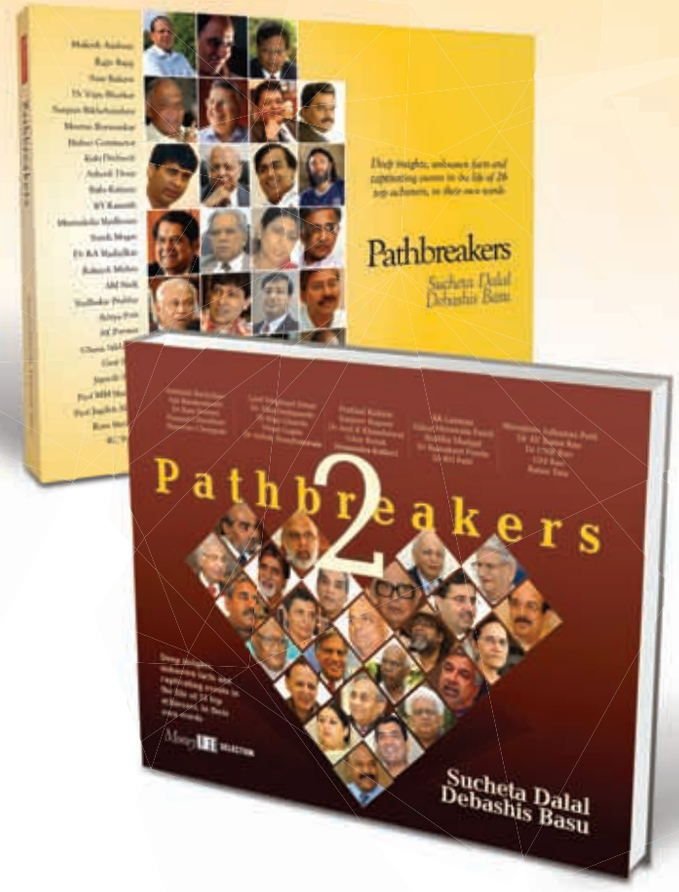
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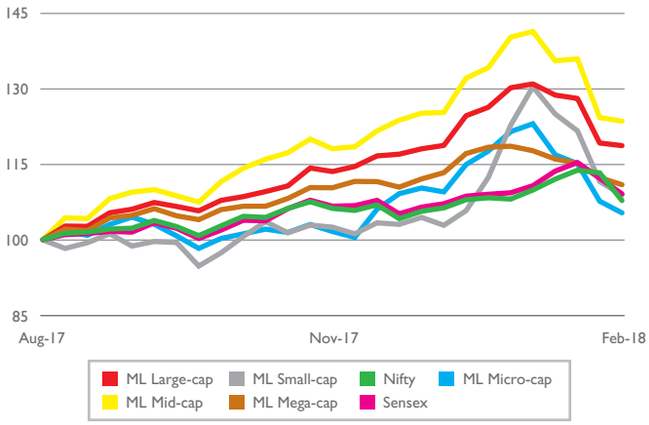
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INDIAN MARKET TRENDS

The Sensex and the Nifty declined 5% each during the fortnight ended 7th February. ML Mega-cap Index and ML Large-cap Index fell 4% and 9%, respectively. ML Micro-cap Index and ML Mid-cap Index shed 9% each. ■

Share Prices Index, August 2017=100

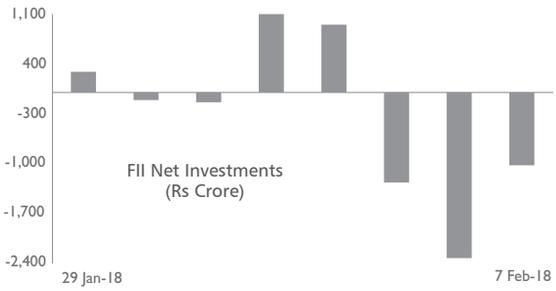


Index	25 Jan	07 Feb	+/-
ML Mega-cap Index	115.34	111.03	-4%
Nifty	11,069.65	10,476.70	-5%
Sensex	36,050.44	34,082.71	-5%
ML Large-cap Index	128.15	118.74	-7%
ML Micro-cap Index	115.21	105.38	-9%
ML Mid-cap Index	135.95	123.58	-9%
ML Small-cap Index	121.68	108.92	-10%
Mega-cap Gainers/Losers	**25 Jan**	**07 Feb**	**Change**
Jubilant Life Sciences	902.15	1,007.40	12%
Vakrangee	505.35	202.50	-60%
Large-cap Gainers/Losers	**25 Jan**	**07 Feb**	**Change**
Spicejet	115.70	134.50	16%
IFCI	30.75	22.85	-26%
Mid-cap Gainers/Losers	**25 Jan**	**07 Feb**	**Change**
TTK Healthcare	849.60	1007.50	19%
Paisalo Digital	324.95	229.95	-29%
Small-cap Gainers/Losers	**25 Jan**	**07 Feb**	**Change**
De Nora India	282.95	396.30	40%
Asian Hotels (East)	385.05	276.95	-28%
Micro-cap Gainers/Losers	**25 Jan**	**07 Feb**	**Change**
Goenka Diamond & Jewels	0.50	0.60	20%
Omkar Speciality Chemicals	72.40	43.65	-40%

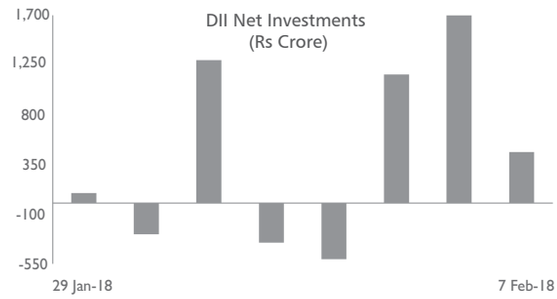
(All Prices in Rs)

FUND FLOWS

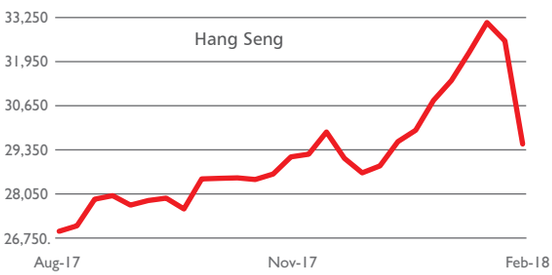
Foreigners: Foreign institutional investors were net sellers of equities (Rs2,512.72 crore). They sold shares worth Rs57,382.98 crore. ■



Indians: Domestic institutional investors were net buyers of equities (Rs3,560.38 crore). They bought shares worth Rs39,521.41 crore. ■



GLOBAL MARKET TRENDS



S&P 500, Korean Composite and Shanghai Composite declined 7% each. The Nikkei and Hang Seng went down by 8% and 9%, respectively. ■

Index	26 Jan	07 Feb	+ / (-)
Bovespa	85,531	82,767	-3%
FTSE	7,666	7,279	-5%
Taiwan Weighted	11,147	10,552	-5%
NASDAQ Composite	7,506	7,052	-6%
S&P 500	2,873	2,682	-7%
Korean Composite	2,575	2,397	-7%
Shanghai Composite	3,558	3,309	-7%
Nikkei	23,632	21,645	-8%
Hang Seng	33,154	30,323	-9%

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What's HOT

Auto companies were a mixed bag during the fortnight. Ashok Leyland and Eicher Motors advanced 9% and 6%, respectively, while Hero MotoCorp ended flat. Force Motors and TVS Motor Co went down by 8% each. ■

ML Auto Index



Companies	25 Jan	07 Feb	+/-
Ashok Leyland	122.40	132.90	9%
Eicher Motors	26,524.95	28,010.45	6%
Hero MotoCorp	3,571.20	3,566.40	0%
Mahindra & Mahindra	757.80	747.10	-1%
Maruti Suzuki India	9,278.20	8,921.80	-4%
Atul Auto	435.40	417.10	-4%
Bajaj Auto	3,311.70	3,137.30	-5%
Tata Motors	400.30	377.80	-6%
Force Motors	3,244.85	2,991.95	-8%
TVS Motor Co	704.85	648.50	-8%

All Prices in Rs

What's NOT

Hotels companies were punished. Asian Hotels (East) and Kamat Hotels (India) tanked 28% each, while Asian Hotels (North) and EIH Associated Hotels declined 21% each. ■

Companies	25 Jan	07 Feb	+/-
Asian Hotels (East)	385.05	276.95	-28%
Kamat Hotels (India)	150.90	108.70	-28%
Asian Hotels (North)	288.70	228.90	-21%
EIH Assoc Hotels	566.10	450.00	-21%
Mahindra Holidays	366.20	301.15	-18%
Benares Hotels	1,288.75	1,062.00	-18%
Advani Hotels	79.00	65.40	-17%
Viceroy Hotels	19.15	15.95	-17%
Hotel Leelaventure	23.20	19.80	-15%
India Tourism Devp	509.15	439.35	-14%

All Prices in Rs

ML Hotel Index



BULK DEALS

Date	Company	Buyer	Seller	Rs Cr
29 Jan-18	Piramal Enterprises	East Bridge Capital Master Fund 1	Morgan Stanley Asia	710.51
02 Feb-18	Repco Home Finance	Apax Global Alpha	Nomura India Invt Fund	38.68
31 Jan-18	Southern Petrochemicals	Hardik Bharat Patel	Minal Bharat Patel	29.60
30 Jan-18	Himatsingka Seide	Anuradha Himatsingka	Vikram Himatsingka	26.48
01 Feb-18	V-Mart Retail	Bottom Billion Fund	Citigroup Global Markets	16.04
02 Feb-18	Milkfood	The Royal Bank of Scotland Plc	Jupiter South Asia	4.70
05 Feb-18	Authum Investment	Vinod Kumar Lodha	Varun Tradecom Pvt	3.28

ML SECTORAL TRENDS

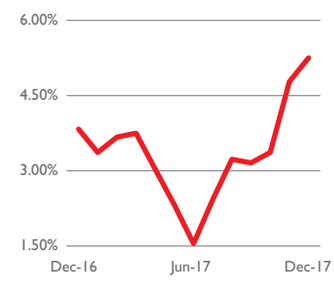
Shares of auto companies and paints companies fell 2% each, while shares of energy companies fell 3%. Stocks of office equipment companies, hotels companies and steel products companies declined 20%, 13% and 12%, respectively. Stocks of oil & gas services companies dipped 1%. ■

ML Sectoral Trends			
Airlines	0%	Office Equipment	-20%
Oil & Gas Services	-1%	Odds	-14%
Paints	-2%	Hotels	-13%
Auto	-2%	Telecom Equipment	-12%
Energy	-3%	Steel Products	-12%

RURAL INFLATION

Combined inflation for urban and rural areas in December 2017 rose to 5.21% from 4.88% in November 2017. Inflation in rural areas rose to 5.27% in December 2017 from 4.79% in November 2017. Food & beverages inflation rose to 5.05% in December 2017 from 4.24% in November 2017 in rural areas. Milk & milk products inflation remained constant at 4.11% in December 2017 as it

Shooting Up



was in November 2017. Inflation for clothing decreased marginally to 5.41% in December 2017 from 5.71% in November 2017. For fruits, inflation rose sharply to 8.71% in December 2017 from 7.81% in November 2017. For sugar & confectionery, it decreased to 7.02% in December 2017 from 8.02% in November 2017. ■

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PS

National Discourse and Its impact (Strictly Non-serious)

Union minister Nitin Gadkari, probably, had the best reaction to finance minister Arun Jaitley's long Budget speech. (See photograph below). But the rest of the country was occupied with other momentous non-issues. So Karni Sena, which held Bollywood to ransom and destroyed public and private property, did an about-turn to declare that the movie Padmaavat, in fact, eulogises Rajput valour and traditions. After two days of high-decibel debates, the issue is dead with nobody held accountable or punished anywhere in the country for loss of business and destruction of public property!

The *pakoda* debate was another issue that occupied more time than the fiscal deficit or even the newly unveiled national health policy dubbed ModiCare. So, the issue would not die down long after prime minister Narendra Modi said, "If a person sells *pakodas* and takes home Rs200 every evening, will it be considered employment or not?" The charged-up Congress social media team had a field day and some even sold *pakodas* in Bengaluru dressed in a graduation gown. BJP president Amit Shah's raked it up again, saying "it is better to sell *pakodas* than to be unemployed", in his maiden speech in the Rajya Sabha on 5th February. All we can say is that 2019 will decide whether people voted the BJP to power to go cashless and have less *pakodas*, or had they expected a lot more. ■





Relentlessly Trolled

As stock prices tumbled, finance secretary, Hasmukh Adhia, joined the ranks of politicians and bureaucrats with a penchant for putting their foot where they shouldn't. Mr Adhia seemed to rub in the salt with his post-Budget interview when he told a leading newspaper that gains from holding shares for the long term is a "gain which is not accruing from any effort, but is just an investment gain. It is only reasonable that we look to get some revenue from this class of income." This lack of understanding of the high risks and research involved in successful investing incensed investors. Soon enough Hasmukh Adhia's twitter handle—@adhia03—was badly trolled. Even BJP supporter and MP (member of Parliament) Rajeev Chandreshekar joined the issue as did TV Mohandas Pai, ex-CFO of Infosys.

Writing for *Business Standard* about how policy tends to be framed on the basis of 'gut feel', intuition and moral positions, rather than hard facts, our editor, Debashis Basu, posed a simple question to Mr Adhia which resonated with many. He said, before Mr Adhia rushes to implement a tax policy that equalises "the long-term and short-term treatment for all asset classes" so that "choice of investment becomes tax neutral," Mr Adhia may want to "explain why people have been putting most of their savings in gold, bank deposits, real estate and insurance, all these years, even though returns from stocks require 'no effort' and are tax-free?" ■

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