

BEST IN CLASS INVESTMENTS / PROTECTION SOLUTIONS

- LIFE INSURANCE • RETIREMENT PLANNING • MUTUAL FUNDS
- FIXED DEPOSITS • GROUP & INDIVIDUAL MEDICLAIM • INCOME TAX
- GENERAL INSURANCE • WILLS • NATIONAL PENSION SCHEME(NPS)

- AVAILABLE FOR FREE FINANCIAL HEALTH CHECK / ADVICE / EXECUTION BY PRIOR APPOINTMENT ONLY.
- IN TEAM & PANEL- EMINENT C.A.'S, LAWYER'S, CONSULTANTS

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TIME FOR TAX PLANNING

In life, two things are certain – death and taxes! 31st March is less than three months away and you surely now have adequate time to focus on one very important task for the financial year. Tax Planning! You have just about enough time to assess your financial records and plan investments for tax saving purposes. But don't get too comfortable just yet. Time is of the essence when it comes to tax planning and the remaining months will fly away soon. We don't want to end up in the middle of a lot of unfinished work, forced to make last-minute investments in sub-optimal instruments just to save tax. You may end up saving tax but will this investment align with your overall investment goals?

Let us not wait for March month and be done with all tax planning as early as possible. Last minute tax planning decisions, taken in haste often are not the ones most suitable for you. We would suggest it is time to start tax planning right away. The question now is how do we start?

→STEP ONE ASSESSMENT OF GROSS INCOME

The IT department has identified five specific heads of income under which all income is classified. These are (a) Income from Salary (b) Income from House Property (c) Profits & gains from Business/Profession (d) Capital Gains & (e) Income from Other sources.

The first step is a fair assessment of the gross income for the financial year. You already have crossed over nine months and we believe you will have a fair bit of idea for income accruing in the remaining months. There is no need to arrive at an exact figure. An approximate figure is enough to know the income for the fiscal year. While arriving at the gross income, please do consider all incomes including things like interest on bank savings, interest earnings from investments made, rental income, etc.

→STEP TWO ASSESSMENT OF TAXABLE LIABILITY

The next step is the computation of the net taxable income. For this, we will be taking into account the exemptions/deductions provided by the government for the above-mentioned income source. We will be

also be considering the tax saving avenues already used/invested in by us during this financial year. Just to highlight, the following things will have to be considered, subject to the taxation rules,

- Investments made in tax saving instruments u/s 80C
- Rent paid for residence
- Insurance premiums paid
- Home loan – interest and the capital amount repaid
- Medical expenses for disease treatments
- Expenditure on handicapped relatives
- Other allowed deductions like tuition fees, donations, etc.

After arriving at the net taxable income, depending on our income level and our personal profile (age + gender + tax entity type) a particular taxation slab will be applicable to us. This will help us arrive at the tax liability for the year.

→STEP THREE PLANNING FOR TAX SAVING

You now have a fair idea of the amount of taxable income and tax liability applicable, as per tax slab, to you. The next step starts

with you deciding how much tax savings you want to do? The idea is to reduce your taxable income so that the tax liability decreases. Thus you will have to work out the right amount of investments to be made in approved instruments which are allowed as deductions...

Note that not every decision is driven by tax saving purpose. For example, taking insurance in itself is very crucial and the decision on it should be taken independently, irrespective of tax saving benefit available or not. Tax saving in insurance products must always be a secondary consideration, as a by-product. As such insurance requirements have to be discussed with your advisor, the sooner the better. Certain insurance premiums are allowed for deduction u/s 80D, 80DD and 80DDB.

We have finally arrived at the stage where we have to select the investment product(s) with the primary objective of tax saving. The most important section here is of 80C which has many approved investment avenues which collectively allow deduction of up to ₹1,50,000/- from taxable income.

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The most popular investment instruments available here are...

- ☑ Mutual Fund Equity Linked Savings Scheme (ELSS)
- ☑ Contribution to Public Provident Fund (PPF) and Employee Provident Fund (EPF)
- ☑ Tax saving Fixed Deposits (5 years & above)
- ☑ National Savings Certificate (NSC)
- ☑ Pension Plans
- ☑ Others Investments like Sukanya Samridhi Yojana (SSY), ULIPs, Senior Citizens' Savings Schemes (SCSS).

There are also some payments eligible for tax saving deductions u/s 80C which have to be considered, if any.

- ☑ Life Insurance premiums
- ☑ Home loan repayment (principal amount)
- ☑ Children's tuition fees

Further, there is also an additional deduction of ₹50,000 available for investments made into NPS u/s 80CCD which is over and above the 80C limits.

THE QUESTION NOW IS WHAT YOU WILL CHOOSE?

To decide we must see the advantages and disadvantages of our preferred products and also our own financial objectives. Parameters like liquidity (lock-in period), risks, returns potential and your existing investment asset allocation, can be considered to decide on the right investment instrument. Please note that even interest rates on government saving instruments are revised from time to time. How much net real returns over inflation can I expect from my returns? Is something that you must question yourself.

We don't wanna push you towards any particular product, though we believe in ELSS as the ideal tax saving instrument u/s 80C. However, overall tax planning is a wide subject and we would suggest that you take the opportunity to sit with your financial advisor and make a fair assessment of the needs and then select the right instruments. It is also an opportunity to take an independent look at your insurance coverage, just in time before the end of the year.



NEW YEAR RESOLUTIONS FOR PERSONAL FINANCE

WISH YOU A HAPPY NEW YEAR!

As we enter 2019, we hope your year is filled with happiness, warmth, and fulfilment of all your dreams. Most of us make resolutions at the beginning of each year, some we follow through, some we don't. This year, we hope you make smart resolutions and follow them all. One aspect of these resolutions we would absolutely love for you to follow is your financial resolutions.

MAKE SUCCESSFUL RESOLUTIONS

Before we take about the key financial resolutions you should explore, let us ensure first ensure that the entire ritual does not fail and the resolutions we decide to undertake are successful. Here are the four steps that will go a long way in ensuring your success...

1. Consider only a maximum of three resolutions. Even one to two resolutions is good enough as too many resolutions are hard to cope up with and you may lose focus and passion with time.

2. Make sure that the chosen resolutions are worth your time, holds your interest and passion, is on top of requirement and is also practical and meaningful for you to implement.

3. Ensure that the resolutions are well-defined, measurable, time-bound and in numbers. This will give you a very definite idea of the target and will help success instead of having to live with vague, subjective interpretations. Note, we have given open-ended resolutions below which have to be well-defined by you.

4. Make yourself accountable by sharing your resolutions with others and also maybe asking others to keep track of the same. Your spouse, children, parents and even friends and bosses can be made asked to keep you on track and support you.

Its' time now to explore a few suggested personal finance resolutions we hope you will make and also follow through.

INVEST __ % MORE



If you are a regular investor and think that you do enough investments, this year do more than enough. Resolve to invest a certain extra percentage each month this year. For example, if you invest ₹10,000 each month, invest 10% extra, which is just an additional ₹1000, which you can manage. At the end of the year, you will have invested an extra ₹12,000. If you are yet to start saving, this resolution should be also at the top of your list.

Know that while you can come up with 100 reasons to avoid investing more right now and plan to invest more in the future, you just need one reason to start investing more from now. And believe us, there would be many compelling reasons for you to start saving. However, investing in the right



product is also crucial. Equities give us the magic of compounding over a long-term, and its something that you should also explore. Remember, even if you invest a higher amount later, you will not be able to beat the returns of compounding you will generate on the smaller amount over a long duration of time.

BE ADEQUATELY INSURED FOR ALL RISKS



When was the last time you carefully looked over your insurance coverage in a comprehensive manner? It is important that you keep on checking on your insurance coverage and making adequate changes in same. Evaluation of comprehensive coverage will require you to assess insurance coverage for life, health, personal accident, critical illness and home insurance. The idea is to protect the financial well-being of your family in case of any death, disease, disability or damage to property. If you haven't explored insurance in depth, resolve that you will do so asap and get adequate coverage.

KEEP AN EMERGENCY FUND OF __ MONTHS INCOME



Life is unpredictable. You never know what will happen next and you might need money

for some reason. Medical emergencies, unforeseen expenses which are unavoidable, sudden cash crunch, an urgent requirement for working capital etc. Thus, it is important that you have some amount set aside for emergencies. If you don't already have an emergency fund, it's time to start building it and if you have one, add a little more money to it. Typically, an emergency fund of three to six months of your income or expenses should be adequate enough for you.

While we are strictly against money lying in your savings bank account earning nominal interest, we advise you to build an emergency fund nonetheless and keep this money in a liquid mutual fund or a savings account.

CUT EXPENSES BY __ %



The main culprit behind low savings and an unhealthy financial situation is often our spending habit. There is often a disproportionately high expenditure on discretionary expenses. Expenses on entertainment, shopping, purchase of gadgets, frequent mobile upgrades, etc play havoc on our finances beyond our imagination. One resolution that you can explore is to track these expenses on a monthly basis by recording it and then

planning the same from next month onwards. We do not ask you to say 'no' to everything, just put a limit in place, relative to your income and your saving plans. With this resolution, we can easily cut about 10-20% of our expenses every month. Remember, a penny saved is a penny earned.

CUT YOUR DEBT PORTFOLIO BY __ %



An easy and hassle-free loan is both a boon and a curse. While the availability of easy loan helps one through difficult times, it might sometimes also lead to unnecessary consumption. This is one of the reasons why people should shy away from taking credit cards. What people actually need to do is be smarter with their consumption pattern. Should you take a high-interest personal loan for a vacation? No. But if needed, should you avail an education loan for your kids? absolutely Yes. This year, learn to make a differentiation between good and bad debts. Good debts help you build assets, improve stature (like home, education) and are of low costs. Bad debt is often towards depreciating assets or intangible experiences (like car, travel, gadgets, etc) and often are of high costs (like CC, personal loans). This year resolve to clear your debt portfolio of all the bad debts first and then good debts, if possible. Being debt free by the year end can be a great resolution.

FUND MANAGER INTERVIEWS



Mr. Shriram Ramanathan - Head of Investments for Fixed Income and Fund Manager, L&T Mutual Fund

Mr. Shriram Ramanathan oversees the management of more than Rs 30,000 cr in assets across various fixed income funds. He has been with L&T Investment Management since June 2012 and has over 18 years of experience in fixed income markets.

Prior to joining L&T Investment Management, he was Portfolio Manager at Fidelity (FIL) Fund Management. In his previous roles, Shriram was managing the Global Emerging Market Debt (Asia) at ING Investment Management Asia Pacific in Hong Kong for about 5 years. His earlier assignments were with Zurich Asset Management Company in fixed income research and with the Treasury department of ICICI Bank, where he started his career in investments in 2000. Mr. Ramanathan is a Chartered Financial Analyst and holds a Post Graduate Diploma in Business Management from XLRI Jamshedpur and an Engineering degree from the University of Mumbai.

Q. Please explain to our readers about the "calibrated tightening" stance of the RBI? What does it mean and how will it impact the interest rates?

Answer: The Monetary Policy Committee (MPC) in the October policy changed the stance from "Neutral" to "Calibrated tightening". In their post policy media interactions, the MPC clarified that calibrated tightening meant that the next move for the MPC would either be a hold or a hike, but not likely to be a cut. The backdrop for the October MPC was one of very weak macros, with Brent crude at a high of 85\$/ barrel and INR-USD depreciating to a low of 73.60. Given the concerns around how these might impact our fundamentals, the RBI MPC's change in stance to calibrated tightening led the markets to believe that the probability of a hike in the upcoming policies had increased.

The past two months i.e. Nov- Dec, however, has seen a complete reversal of the moves in Brent and INR. Food inflation too has collapsed, resulting in CPI undershooting market expectations by a wide margin. While RBI MPC in its December policy meeting chose to maintain their "calibrated tightening" stance, we do expect that this stance will change back to "neutral" in the next MPC meeting in February. The resignation of Dr. Urjit Patel and subsequent appointment of Mr. Shaktikanta Das as the RBI governor further increases our conviction further of the likely change in stance to neutral.

Q. The RBI in its last review, kept the policy rates intact. What is your assessment of how interest rates will behave /move in the year 2019?

Answer: The MPC, in its December policy meeting, kept the Repo rate on hold, maintaining its stance of "calibrated tightening". The last 3 CPI inflation readings have been lower than the 4% CPI target, and the MPC's own CPI projections have been marked down significantly to 3.8-4.2% for H1 FY2020. Another notable event post the December policy has been the resignation of Dr. Urjit Patel from the post of RBI Governor. The Government has been quick to announce the appointment of Mr. Shaktikanta Das as the new RBI Governor.

The drastic change in the macro backdrop, along with the change in RBI governor, gives us the confidence that the MPC will go ahead with a change in stance back to "Neutral" in the Feb policy. Large scale OMO purchases by the RBI, has ensured that the demand supply situation for government bonds has become very favorable. We expect a downward bias in the 10 year G-sec towards 7-7.25% range. The rates market in 2019 will take further cues from the government's fiscal management, the general election in May-19, continuity of Open Market Operations (OMO) purchases from RBI to give durable liquidity, sustainability of lower food inflation from Apr-19 and behavior of already higher core inflation.

Overall, we remain positive in our outlook for the bond markets and expect yields to move lower in the coming year.

Q. On inflation side, it looks that things have moderated, especially with lowering of crude oil prices. How do you assess the situation on ground and what are your views on same going forward?

Answer: The past few readings of CPI have surprised on the downside, with food inflation continuing to surprise on the lower side, although core inflation continues to remain elevated in the 5.5-6% range. The favorable global backdrop, with oil prices remaining benign and growth having a downward bias in various regions of the globe – all point to a favorable scenario for CPI globally. Locally, for India, the big disinflation driver is food prices. Although the government did announce large MSP hikes, the same has not translated into higher food prices yet.

Given this backdrop, the RBI MPC lowered its inflation forecasts sharply in its Dec meeting, down to 2.7-3.2% in H2 FY19 (vs 3.9-4.5% earlier) and for Q1/H1 FY 20 from 4.8% to 3.8-4.2% in H1 FY20. While such a sharp revision would seem to have warranted a change in stance to neutral, the MPC noted that the unexpected softening of food inflation and the collapse in oil in a relatively short period of time (and with much higher implied volatility) necessitates further monitoring over the next few months, to confirm if both of these are indeed durable and sustainable or are overdone due to transitory factors.

While CPI is likely to move gradually back to the 4-5% range by middle of 2019, it is still likely to be comfortably within the CPI target range of 2-6%.

Q. Is there any change in the way fund houses have been approaching the debt markets today vis-a-vis the past, say one year ago?

Answer: On the broad interest rate call, the industry has gradually turned from an extremely bearish view to a more positive one recently. At L&T Mutual fund, we moved from an underweight duration stance to overweight duration in 1st week of November, and have been able to capture a majority of the move lower in yields. We remain positive in our outlook for interest rates going forward.

On the credit side, the recent events around IL&FS followed by the NBFC / HFC fiasco, have made mutual funds more careful about their own investments, risk guidelines and internal credit processes. At L&T Mutual Fund, we have always followed a process of internal ratings for each and every name in our investment universe, where our credit team assigns a long term as well as a short term rating to the issuer, and this has been an important contributor for us being able to avoid cases of serious downgrades / defaults across our debt funds. Our reliance on external ratings has always been minimal, although the insights from rating agency analysts are very valuable. We believe that a majority of the mutual fund industry is also likely to move towards such an approach, if they are not already following it so far.

Another core philosophy of L&T Mutual fund has been to clearly distinguish between high quality funds (where credit risk is kept to a minimum), versus the credit oriented funds, so that investors can consciously choose which type of fund suits their risk profile and return aspirations. This is another trend that, in our view, is likely to gain traction across the industry.

Q. What has been your investment strategy - both on the duration side and credit side in the current markets?

Answer: We expect the current positive sentiment in bond market to sustain. We had moved from a cautious, short duration stance across our various funds, to an overweight duration approach (in 1st week of November), as suitable within each fund category. We continue to remain overweight duration given the positive takeaways from the recent MPC meeting.

As far as credit funds are concerned, while some amount of caution is warranted, we believe the current market environment also offers very good opportunities. A fund manager can get very attractive spreads for relatively lower risk, compared to the past few years where credit spreads had become extremely unattractive. While we were cautiously maintaining higher cash levels till October, lately we have started deploying these funds into attractive yielding securities in the AA space. Credit spreads have widened significantly and offer good value.

Q. What would you advice to an investor looking to invest in debt funds for medium to long term? Where should he invest?

Answer: With tail risks of sharp bond market selloff abating, we believe the current interest rates across various fixed income products are quite attractive for investors. The L&T MF approach of keeping high quality funds such as L&T Ultra Short Term, L&T Short Term Bond Fund, L&T Triple Ace bond fund invested only in the top quality AAA papers ensures that credit risks in these funds are kept at a minimum, and we would advise investors to start looking at these segments gradually, given the attractive level they offer. From a 3-5 year perspective, we believe investors who can absorb near term volatility, could gradually allocate a portion of their long term savings to debt products which invest in the longer end of the AAA corporate bond curve such as the L&T Triple Ace Bond Fund. We believe such a strategy should do quite well, especially compared to investing in tax free bonds or long term FDs where current yields are quite unattractive. Similarly, for investors with risk appetite for credit oriented funds, we believe that such accrual funds offer good value proposition, with portfolio yields at elevated levels.

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