

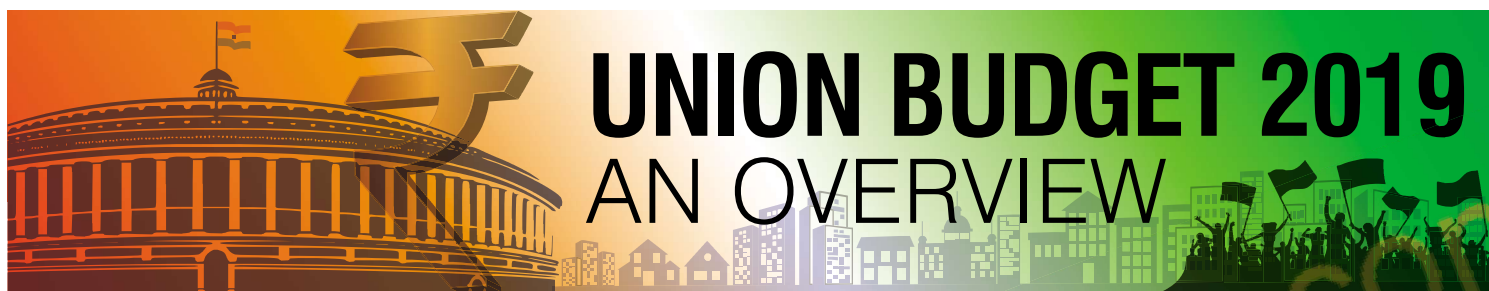
## BEST IN CLASS INVESTMENTS / PROTECTION SOLUTIONS

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

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- IN TEAM & PANEL- EMINENT C.A.'S, LAWYER'S, CONSULTANTS

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The anticipated Budget 2019 was clearly a budget for the low and middle-class citizens of the country. While it was clear that the budget will be a popular budget, being announced so close to the Lok Sabha elections, the Modi government has surely focussed on both, the rural and the urban vote.

The interim finance minister Piyush Goyal noted that "This is not just an Interim Budget, this is a vehicle for developmental transformation of the nation." In this article, we revisit the key highlights of the budget and its implications:

### KEY TAX RELATED PROVISIONS

#### 1. Standard Deduction increased to ₹50,000:

In Budget 2018, finance minister Arun Jaitley removed deductions for medical allowances and LTA and brought these deductions under the one head of standard deduction of ₹40,000. For the Budget 2019, this standard deduction has been raised to ₹50,000 bringing in more relief to the salaried employees. This will help tax savings of upto ₹3,120 (30% tax bracket + 4% cess).

#### 2. Full tax rebate on taxable income upto ₹5 lakh:

This has been the most popular announcement of Budget 2019. While it is fairly simple, it is important to understand that there has been an increase in the tax rebate and not the tax slab. Before the budget announcement, income up to ₹2.5 lakhs was exempt from tax and a tax rebate of ₹2,500 under Section 87 A was applicable for individuals earning up to ₹3.5 lakhs a year. This year, the rebate limit has been enhanced to ₹12,500 and the income eligibility has been raised to ₹5 lakhs. The rebate vanishes even if your net taxable income increases to ₹5.10 lakh.

For example, if you earn a net taxable income, after standard deduction (SD) of ₹50,000, of ₹4.95 lakhs, you have to pay no tax. However, if you earn ₹5.5 lakh after SD,

your tax will be calculated on the whole of ₹5.5 lakhs, the calculation will be as per existing tax slabs only. The marginal benefit from budget here is the increase in the Standard Deduction.

However, if an individual does proper tax planning, an individual with much higher income will now pay no tax. The following popular avenues will come into play for tax planning - ₹50,000 (Standard Deduction) + ₹1.5 Lakh (80C) + ₹50,000 (NPS) + ₹25,000 (medical insurance) + ₹10,000 (Bank Interest) + ₹2 lakh (home loan). Using above provisions alone, an individual earning up to ₹9.85 lakhs will have to pay no tax. That is not the end! An individual may further make use of other exemptions /deductions to further reduce tax including deductions from education loans, and medical expenditure on senior citizens. It is expected that about 3 crore taxpayers will benefit from this increase in rebate.

#### 3. LTCG on house exception extended to investment in two homes:

The Long Term Capital Gain (LTCG) tax on the sale of a residential house was previously only exempt up to the investment made in one residential house. Now this exemption on the sale of a residential house will be available for investment in up to two residential house properties against one earlier with the upper limit of ₹2 crores.

#### 4. Increase in TDS threshold on incomes:

The TDS threshold for rental income has been increased to ₹2.4 lakhs from the current ₹1.80 lakhs. Similarly, the threshold raised for TDS on interest from bank and post office deposits will be raised from ₹10,000 to ₹40,000.

5. Notional rent on the unsold second self-occupied property exempt for 2 years instead of 1 year.

6. Two percent interest subvention for micro, medium and small enterprises (MSME) loans with a ticket size of one crore.

7. The ceiling of payment of gratuity has been enhanced from ₹10 lakh to ₹20 lakh

8. **Full digitisation in Tax returns processing:** All scrutiny for tax will be done via an anonymous digital interface and in two years, there will be no human interference in tax verification and scrutiny and all tax returns will be processed in 24 hours.

### SOCIAL WELFARE PROVISIONS

#### 9. The PM Kisan Samman Nidhi (PMKISAN):

The big announcement for farmer /rural segment came in the form of a new scheme called as "PMKISAN". Instead of opting for loan waivers, the NDA government has prudently proposed a direct benefit transfer plan which is expected to directly benefit 12 crore farmers in India. A

total of ₹75,000 crore has been allocated to this scheme that aims to address unrest among the farming community. Under the plan, 100% financed by the Centre, ₹6,000 every year will be given to small and marginal farmers who have land holding up to 2 hectares. The amount will be directly credited to the bank account in three equal instalments of ₹2,000 each, starting retrospectively from December 1.

**10. Pradhan Mantri Shram Yogi Mandhan:** This is a pension scheme directed for the unorganised sector which will provide assured monthly pension of ₹3,000 with a contribution of ₹100 per month for workers after 60 years of age.

### KEY BUDGET FIGURES

**11.** The total budget (receipts and expenditure) is pegged at ₹27.84 lakh crores, up 13.3% over previous year. The revenue receipts is at ₹19.77 lakh crores and net tax revenues to center is at about 17 lakh crores.

**12.** Fiscal deficit is pegged at 3.4% for the year 2019-20. For the current fiscal year too it was revised from 3.3% to 3.4%, including the additional ₹20,000 crore that was

needed for income support to the farmers.

**13.** For every ₹100 of government receipts, ₹21 comes for GST & Corporation Tax each, ₹17 is from income tax, ₹11 from excise and customs, ₹19 from borrowings & other liabilities, ₹7 from Union excise duty, ₹8 from non-tax revenue and disinvestment, ₹3 from non-debt capital receipts, ₹4 from customs and the rest of ₹10 comes from other sources.

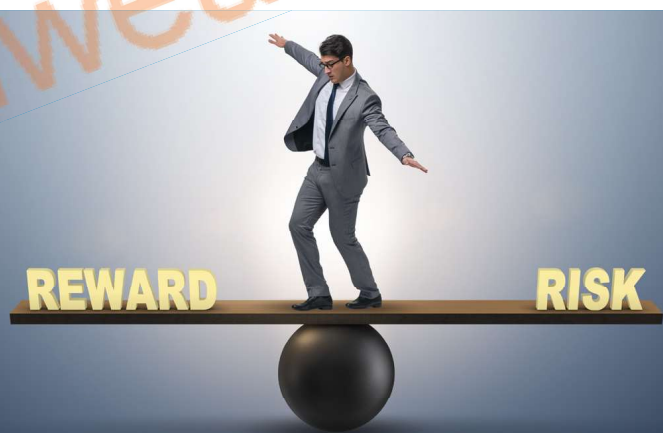
**14.** For every ₹100 of government expenses, ₹23 goes to states as their share, ₹21 goes to center government schemes, ₹18 goes towards interest payments, ₹9 goes to subsidies, ₹8 is for defence, ₹5 is for pensions and the rest goes to other expenditures.

**15. Higher tax revenues:** Even with an increase in expenses and lower tax rates, the government expects gross tax revenue to increase to 12.1% of GDP in FY20 from 11.9% in the current year and further rise to 12.1% in FY21 and 12.2% in FY22. Much of the rise is expected to come from direct taxes which are forecast to climb to 6.9% of GDP in FY22 from 6% in FY18. The government expects the full benefit of GST to start flowing from FY21.

### CONCLUSION:

The budget is surely focused on pleasing the popular vote without really going overboard by announcing freebies. The increased benefits to the rural market and the urban middle class is bound to benefit directly and will result in increased consumption in the economy, thus driving up jobs and corporate profits. There is a big structural policy shift in form of direct income support instead of loan waivers. This is more prudent as loan waivers distorted the markets and disturbed banking and credit systems while giving benefit to perhaps only the well-off farmers who took loans. This new scheme is here is stay and perhaps, rightly so. Now it only remains to see whether the feel good factor will translate into results which the government wants to see.

# WHY YOUR RISK PROFILE IS IMPORTANT



Time and again we have always said that while there are general guidelines for investment, every individual should invest in an instrument only after carefully analyzing their needs, their return expectations, and their risk-taking capacity. Risk taking ability should be a special concern while investing. If taking risk into consideration wasn't important, everyone would be likely investing in either one extreme end, equity /risk assets or debt, of the asset allocation bar.

### UNDERSTANDING RISK PROFILE

The risk profile of a person can be understood as a factor of his/her risk capacity and risk tolerance levels. The risk capacity refers to the amount of risk that the individual can afford and the risk tolerance refers to the ability of an individual to cope on an emotional level with the volatility of the market. It is important to understand the difference between risk capacity and risk tolerance. There are people who might be willing to take more risk but they cannot

afford it, such a situation is especially where risk profiling proves its importance. Risk profiling tries to maintain the delicate balance between these two aspects. There is another risk measure, i.e., the required risk which refers to the amount of risk an individual will have to incur in order to achieve the required return.

An individual's risk profile can generally be decided using two approaches, these approaches are:

- i. the life cycle approach
- ii. the risk assessment approach

### THE LIFE CYCLE APPROACH

While using the investor life cycle approach, individuals would be classified into different groups/stages. Thus, investors can be classified as young investors, investors with young dependent families, investors with high income and stabilized expenses, investors close to retirement and retired investors. The life stage is then generally taken as the reference point and applicable asset allocation and/or product exposure is recommended based on the needs of this reference stage /group. Here, individual risk

profile is really not assessed but more focus is given to experience/learnings from the personal finance field.

Let's say you are a 30-year-old man with two kids of age 3 and 5 years, thus your expenses are high and your income is still growing. Ideally, you should invest in a product which has a modest level of risk, provides an option for both growth and income and has a low lock-in period as your investment horizon at this point is uncertain. Here, if you don't understand the risk profile, you might end up investing in a product

which is not suitable for you and thus, the decision might not turn as fruitful as you may have hoped.

#### THE RISK ASSESSMENT APPROACH

Under the second approach, the investor is basically divided into risk profiles based on an objective assessment of his risk capacity and tolerance levels. This is typically achieved through a risk profile survey or questionnaire. The investor is likely classified into either one of the three (or five) risk profile of conservative, moderate and aggressive.

It is on the basis of this risk profile that your portfolio allocation is decided. Compared to the life cycle approach, this is a more direct and meaningful risk profile approach for an investor as it considers an asset allocation which the investor will be more comfortable with. For example, if you have a conservative risk profile, you are someone who doesn't want to take a lot of risks and thus you should invest more in fixed income instruments which are less volatile and invest little in equity instruments, which are highly volatile.

## IMPORTANCE OF RISK PROFILE

It is very important to define your risk profile while investing because, only once you understand your risk profile, you will be able to take an informed decision about your investments which is also in line with your long term goals. The importance of risk profiling can be summed up in three points:

### i. To decide suitable asset allocation

Any portfolio construction is incomplete without asset allocation. It is never wise to put all your eggs in one basket and thus asset allocation is most of the times necessary to ensure that both the risk and expected return is at a comfortable level. To understand, what kind of assets one can invest in, one has to know his or her risk profile. For example, you cannot invest in derivatives if your risk profile is conservative, or you are someone who has growing needs and unsteady income.

### ii. To match required return expectations

Every investor has different return and income requirements. An investor who wishes a return of say 15% in the long term and does not need a regular income, for that individual, investing in equity for long term makes absolute sense. However, if the investor cannot emotionally handle volatility in returns, then equity is not right the product. For such cases, one will be better off investing in a balance /hybrid product. Similarly, one cannot just simply invest in debt because he has a low-risk capacity, this way the investor will not be satisfied with the sort of return that will be generated and may not meet his life goals.

Both the scenario of either taking over exposure to equity or debt is detrimental. Higher exposure to debt creates a situation where, over long term, you fall short of the wealth you could have potentially created. This could jeopardise your life goals like child education or retirement. On the other hand, over exposure to equity may result in short term volatility which will see your wealth reduced and this too may affect your upcoming plans. A right balance, right asset allocation as per risk profile can save the day for you.



### iii. To have a stable, meaningful wealth creation journey

The risk profile of an investor will change over time and at various life stages. For example, you may be a conservative investor when you were just beginning out but now that you have had some investing experience, you may be willing to take more risk. Similarly, while beginning with the investment you might still be building your career and had a young family to take care of, but eventually, once you have high income and stable expenses, you may be willing and also be able to afford to take on more risk. Thus, risk profiling is not important only at the beginning of

investment but also should be conducted over time.

Having a portfolio that takes into consideration your risk profile will surely give you more comfort and confidence in your portfolio. This is important as any unexpected performance, either through volatility in portfolio or less than expected performance /returns can play havoc to your confidence. This may force one to make irrational, short-term investment decisions which are not logical and in one's best interests. A good marriage of risk profile and portfolio is thus important for a stable, long lasting and meaningful journey towards financial well-being.

# FUND MANAGER INTERVIEWS



**Mr. Santosh Kamath**  
Managing Director and  
Chief Investment Officer at  
Franklin Templeton, Fixed  
Income in India

Mr. Kamath oversees the fixed income functions of the locally managed and distributed debt products. Mr. Kamath earned his M.B.A. from XLRI, Jamshedpur in the year 1993 and his Bachelor of Engineering degree in electronics and telecom from REC, Bhopal.

## Q. Please evaluate the current debt market scenario? How is the liquidity in the markets?

**Answer:** The inflation trajectory appears to be headed south mainly due to lower food and crude oil prices. CPI inflation for the month of December came at 18-month low of 2.19%, which is considerably below RBI's revised inflation projection of H2FY19 of 2.7-3.2%. Core inflation also moderated to 5.70%. The correction in crude oil prices may help keep the inflation low, along with the winter crop yield. Improving consumption demand and expansion of industrial activity augurs well for the growth of the economy. Higher capacity utilization in select sectors, along with better demand conditions show improvement in economic conditions. Lower oil prices, if sustained, may also impact growth favourably.

The year started with surplus systemic liquidity and it remained near the neutral level. In September '18, system liquidity was in deficit and became a cause for concern. The liquidity deficit in the banking system has moderated from the beginning of the New Year. The improvement in the banking system liquidity can be ascribed to the Open Market Operations (OMOs) conducted by RBI, easing of year-end and festive season demand for funds and the increased central government spending. The RBI has undertaken OMO purchases totalling INR 1.56 trillion during the previous 4 months (Sept-Dec'18) and total OMO purchases so far this fiscal (Apr-4 Jan'19) have totalled INR 1.97 trillion. RBI also announced continued liquidity support till March 2019. The overall liquidity in the banking system is likely to improve further. Going forward, we expect the RBI to ensure that liquidity remains around the neutral level, in line with its current stance.

## Q. Please highlight the key developments taking place for the Indian debt markets in the year 2018.

**Answer:** Bond markets started off 2018 with an expectation that the RBI may continue with its neutral policy stance. The first half of the year saw trade wars, geopolitical tensions, volatile global markets, depreciating INR, higher crude oil prices lead to higher yields. Sticky inflation led MPC to hike repo rate by 50bps in two tranches in June and August. In September markets were increasingly concerned about asset-liability mismatch on Non-Banking Financial Company (NBFC)/ Housing Finance Company (HFC) balance sheets. Tightening liquidity condition had pushed up borrowing costs, for NBFC and HFC lenders. Further, investors turned risk-averse after this experience, which had dampened overall market sentiment. Concerns around fiscal slippage, tight liquidity conditions, NBFC saga and a change in policy stance to calibrated tightening led to an upward move in the yields.

The RBI and government announced multiple positive moves that have directly/indirectly provide liquidity support to NBFCs. RBI incentivized bank lending to NBFCs by increasing the ceiling for lending to a single NBFC by an additional 5% of their capital funds. Recent liquidity measures by RBI, lower inflation, a sharp correction in crude oil prices, appreciating INR and lower borrowings have alleviated the pressure on yields. These slew of measures by the RBI and the government provided support to the market.

The spreads between the 10-year benchmark and repo rate were as high as 174bps, reflecting cautious approach by market participants. 10-Year AAA and AA-rated corporate bonds maintained an average spread of 80 bps and 134 bps against the 10-Year G-sec bonds in 2018. The average spreads widened towards the last quarter of the calendar year primarily on account of the liquidity crisis. The 10-year benchmark yield closed at 7.37%, 3bps higher than the beginning of the year.

## Q. There are some concerns about the fiscal situation prevalent in the market. What is your take on same?

**Answer:** In the first eight months of FY19, India's fiscal deficit target has overshoot by 15%, largely due to a revenue shortfall. The current run rate of the government's GST revenues is tracking a shortfall of INR 70,000-80,000 crore against the annual budget. In a year of general election, farm relief packages for farmers have been announced, this may pose a risk to meet the fiscal deficit target.

Revenue slippages are expected on GST but the possibility of getting higher nontax revenue may not be ruled out. Disinvestment proceeds may exceed the target for FY19, sizeable corpus has been raised via the ETF route. Certain expenditures can be deferred in terms of payments to the next year to meet the deficit target. Despite fiscal deterioration, the government 10-year bond yields have come down sharply over the past few months, from a peak of 8.25% (during September 2018) to 7.37% (on December 31). Besides easing liquidity conditions, the sudden softening in global crude oil prices, an appreciation in Indian Rupee has helped the bond market.

## Q. How do you assess the current bond yield levels from the valuation perspective?

**Answer:** With inflation below RBI's target level and global crude oil correcting, we expect the yields to continue to soften, whilst exhibiting some amount of volatility. RBI mentioned a host of provisions to address the liquidity conditions in the NBFC and HFC sector. The market may draw comfort from these measures and the spreads, which had widened in the recent past, may compress gradually. We believe that if inflation continues to be benign and global conditions remain conducive, the Monetary Policy Committee (MPC) may consider changing the stance back to neutral in the next meeting. We expect a 25bps rate cut in H2CY19 if the crude oil prices remain low and there is a normal monsoon.

However, raising US bond yields and strengthening USD, have resulted in bond outflows from EMs in the recent months. Growing concern over the Centre's fiscal position, especially ahead of the interim budget announcement on Feb 1, with lower GST collection and reports of relief packages for farmers, may continue to pose a risk to the above view.

## Q. What would you advice to investors exploring traditional options like PPF, NSC, NPS, etc. as against debt funds at this time?

**Answer:** Investors need to objectively maintain asset allocation. Therefore some allocation to traditional assets may be advised. Investors should allocate a certain portion in fixed income funds as well, the mutual fund industry is well regulated by SEBI.

## Q. What would be your advice to investors with short, medium and long term investment horizons in debt funds? Where should they invest?

**Answer:** Short-term maturity instruments look attractive from a valuation perspective. From an investment perspective, we suggest investors (who can withstand volatility) to consider duration bonds/gilt funds for a tactical exposure over the short-term horizon. We continue to remain positive on corporate bond funds and accrual strategies. Investors who are looking for accrual income opportunities may consider corporate bond funds that offer higher yields.

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