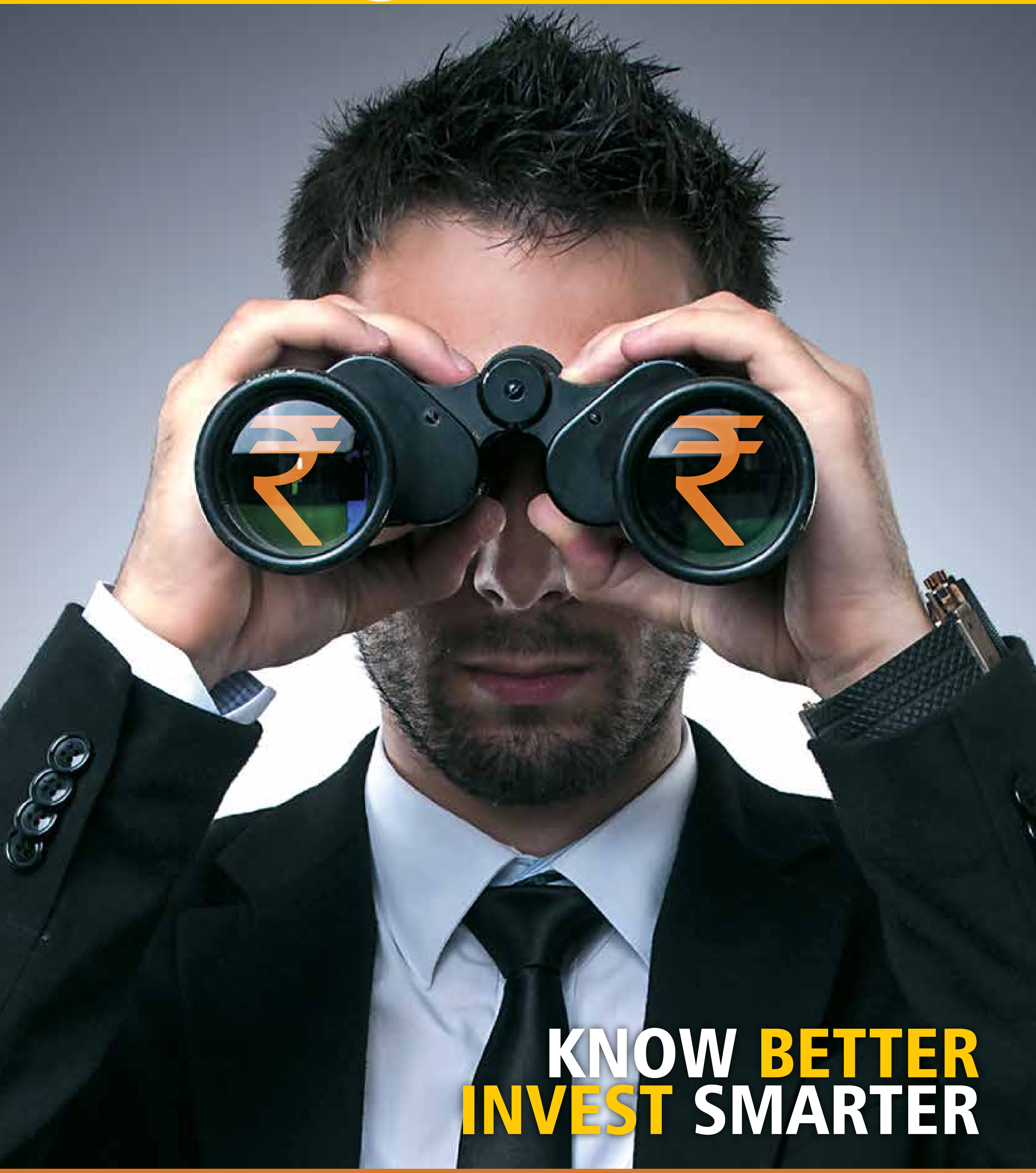
Vol.:1, Issue: 1

November - December 2016

PunjiTimes

INVEST IN INVESTING



KNOW BETTER
INVEST SMARTER

From the Editor's Desk

As I received the first copy of Punji Times from the print, a smile of satisfaction spread across my lips. The efforts towards this magazine started a few years ago with the printing of financial awareness literatures aimed at educating our friends and family. Little did we know, that our continuous efforts in this direction would culminate into this magazine.

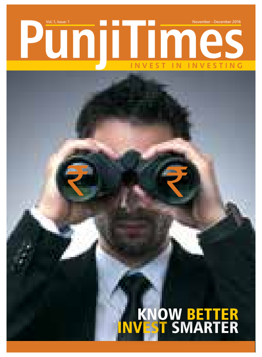
In this day and age, everything is constantly evolving, be it technology, social interactions or the financial eco-system. This evolution of elements greatly impacts each of us. For example look at how Facebook has changed the way we 'keep in touch' in just a decade. As the elements of our environment change, it becomes important that we keep up. Sometimes there is an easier way to reach our destination but we are not aware of it.

This magazine is a humble attempt at simplifying investments and financial planning for the uninitiated. With every issue, this magazine will educate its readers and keep them up to date with the developments in world of finance.

I'm thankful to everyone involved in the production of this magazine. Hope you enjoy reading your copy.

Looking forward to seeing you soon!

Tushar Goyal
Editor-in-Chief



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VOLUME: 1

ISSUE: Nov-Dec, 2016

PERIODICITY: Bi-Monthly

RNI REF-NO: 1298994

PUBLISHER: Parveen Neb

EDITOR-IN-CHIEF: Tushar Goyal

WEBSITE: www.meripunji.com

EDITORIAL OFFICE:

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203, Siddharth Chambers, Hauz Khas,
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New Delhi-110016

SUBSCRIPTIONS:

Email all details to info@meripunji.com

PRINTED AT:

Ess Pee Printers
1/12 & 13 DSIDC Shed, Tigri,
New Delhi-110062

PUBLISHED BY:

P S Management Solutions Pvt. Ltd.
203, Siddharth Chambers, Hauz Khas,
Kalu Sarai, (Adj. Azad Aptts.)
New Delhi-110016

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CONTENTS

5 REASONS TO START INVESTING

BETTER SOONER THAN LATER, BETTER LATE THAN NEVER

We have all heard the tale of the tortoise and the hare and when it comes to the parlance of investing, the wisdom of this old fable holds true. So here are five reasons to start investing (if you haven't already) and the sooner you start the better!

1 Achieve your goals

We all have aspirations and working towards them is what drives us. Make your life more fulfilling by achieving your goals. All that is required is some foresight and discipline. Once your goals are set, you can chalk out an investment plan to meet your objective. Structure your investments keeping in mind your existing assets and reserves and cash flow cycle. While you should invest in a future; you should also enjoy the present!

5 Financial Freedom

Financial freedom is when one does not have to curb one's desires for the lack of money. Money is the means to an end, not the end itself. Achieve financial freedom so you can pursue things that are truly meaningful to you without having to worry about your finances. When it comes to the pursuit of financial freedom, it is always better to be the tortoise of the race and invest one step at a time. After all, slow and steady wins the race!

4 Power of Compounding

Compounding means interest on previous interest earned. This means your principle keeps growing results in more earnings each cycle. It is the financial equivalent of a snowball rolling downhill. With each revolution, the snowball gets bigger because it picks up more snow. Compounding produces a snowball effect with money because the earnings each year contribute a little more to future earnings. The piggy bank is only going to get fatter!

Money is an extremely crucial part of our lives. We need money for everything, from the basic necessities of food, clothing and shelter to the luxuries of a holiday, a sports car or a beach front property. The tricky part is earning the money (gotta do the work ourselves right?) But what if like plants, money could be sowed and reaped? This is where investing comes in. Investment means putting your money to work so you don't have to do 'all' of the work yourself.

3 Inflation

Inflation is a given in the times we live in. Every year we see prices of goods rising. A pet bottle of cold drink that used to cost ₹ 15 now costs more than the double. Which means even if you maintain the same lifestyle, your spending will increase every year due to inflation, directly affecting your disposable income. With the purchasing power of money falling, you need to ensure that your investments grow at a rate higher than the rate of inflation. A stitch on time saves nine!

2 Life expectancy > Earning life

Your job will support you till the age of 65. After that you still have an average of ten more years to look forward to. Let your retirement be as glorious as you envision it today. Work towards creating a pool of resources so that finances are the least of your concerns in your old age. A suitable investment strategy will put your money to work so it can grow and multiply for you while you sit back and cherish the good life. Better sooner than late and better late than never!

Go take that walk on a warm sunny day, join that salsa class with your spouse,spend time enjoying the Swiss Alps. Dream big and start investing towards it now! ■

KNOW YOUR OPTIONS

CHOOSE YOUR INVESTMENTS WISELY

Ever heard folktales in your childhood where rich old men had pots full of gold buried in their backyard? That's how people would save their money in the old days. Luckily, we do not need to dig up our backyards anymore, thank God for banks! More importantly, instead of just leaving our money 'buried in our backyard', we can use it to earn more income by simply investing it.

There are a whole lot of options for investments and each option is unique in its own characteristics. Every form of investment has its pros and cons. What we need to do is study our options carefully and then select the ones that are suitable to us.

The market is brimming with many types of investments and new innovative investment plans are being chalked out ever so frequently. Let us discuss some of the more popular avenues of investment:

PROPERTY

Investment in property is one of the oldest forms of investment. It is tangible, stable and also provides security to one's family. It is, therefore, advisable to invest in one property at the least for this reason. However, return on property is low, usually around 3% annually in the form of rental income.

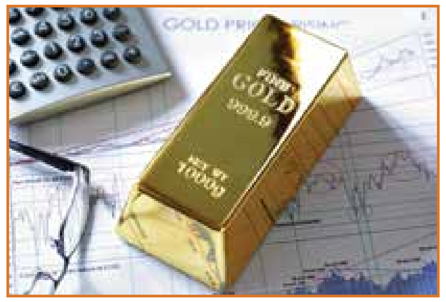
Pros: Less risk, useful for personal use if required

Cons: Low returns, low liquidity, high amount of investment required

GOLD

Another traditionally popular form of investment is gold. This form of investment is culturally a part of the Indian subcontinent with religious and other occasions such as Akshaya Tritiya or marriage where gifting gold is considered auspicious.

Pros: Relatively safe investment, unlikely to lose demand in India in the near future,



Cons: Due to the mindset around gold, once bought, it is usually not sold, thus making it a sunk investment

A better option may be a Gold Bond. The price of the bond varies with the price of gold so there is no loss in value when you sell a gold bond to buy actual gold. Benefit? You get to earn interest on the bond too which means that your gold investment is not stagnant. Win-win!

BANK FIXED DEPOSITS

Fixed Deposits are probably the most popular form of investment. There are various schemes available from different banks and they earn a stable return (in the form of interest) of around 8% p.a. Online fixed deposits can be accessed using online banking accounts and are very fast and hassle free. Though the returns are taxable.

Pros: Fast, easy, low risk, fixed regular income

Cons: Low returns, interest is taxable, penalty on premature liquidation

EQUITY

An equity investment is one where we buy and hold shares of a company from the stock market and earn by way of dividends or capital appreciation. With higher risk come higher returns. It is advisable to go for equity investment if only one is well-acquainted with the equity market.

Pros: High returns, high liquidity, no capital gains tax after one year, dividends received are tax free

Cons: High risk, lack of expertise

DEBENTURES/BONDS

Debentures are debt papers issued by companies to raise money from the public for a specific tenure where the company pays fixed interest to the debenture holder. A bond is a formal contract to repay the lender the amount of borrowed money along with interests at pre-decided intervals, like monthly, semi-annually or annually.

Pros: Low risk, safety of capital, moderate - high liquidity, indexation available on sale after 3 years

Cons: Low return, interest is taxable

MUTUAL FUNDS

A comparatively newer form of investment which has gained exponential popularity due to its unique nature, mutual funds have proved to be a win-win venture. Mutual fund is an investment program that pools investors' money into

diversified holdings managed by a professional fund manager. It yields an average of around 15% return tax-free on equity schemes if held for 1 year and about 9% return on debt schemes if held for 3 years. More on mutual funds ahead in this issue.

Pros: Lower risk, high return, high liquidity, lower taxes

Cons: Fund expenses, many funds are vailable that evaluation may be hard

So we can see there are many options to invest in, some give high returns,others give lower returns, some have higher risks, others, lower. When we combine two or more different types of investments it becomes a portfolio, using which we can maximize the return while minimizing the risks through diversification. While we need to keep in mind the various options and weigh their pros and cons; we need to also keep in view our financial goals and choose an investment option (or a combination) that is best suited for us. An investment strategy that is aligned with our financial goals is the best strategy ■

Investing in Mutual Funds

WHY INVESTING IN MUTUAL FUNDS MAY BE BETTER THAN INVESTING DIRECTLY ON THE STOCK MARKET

WHAT IS A MUTUAL FUND?

A mutual fund is a collective investment vehicle that pools investors' capital and makes investments in various financial instruments such as stocks, bonds, commodities etc. Each investor then owns shares in the fund, which represent a portion of the fund's holdings. Mutual funds are managed by financial experts known as Fund Managers who handle investments on the behalf of the fund, picking and investing in instruments that optimize the fund's returns.

Putting it simply, if an investor is looking to buy shares in several companies but lacks the expertise or time to make such investments; they can buy units of a mutual fund instead which hold shares in different companies. Buying a mutual fund share is akin to holding a slice of pizza with many toppings. The investor gets a share of the fund's gains, losses, expenses and income in proportion to his holdings. Just like a stock's price indicates its performance, a per-unit price called Net Asset Value (NAV) is used to track the fund's performance. The NAV is calculated by the Asset Management Company (AMC) at the end of each business day.

MUTUAL FUNDS VS DIRECT EQUITY

Where investing in equity is concerned, investors are often faced with two choices – mutual funds and the stock market. Let us take a look at the primary benefits of investing in mutual funds as opposed to direct investment in the stock market:

RISK DIVERSIFICATION

Mutual funds enable investors to diversify their risk by providing a portfolio of stocks in unrelated sectors. A diversified basket of stocks reduces the risks inherent in specific stocks and industries. While an individual investor would require significant capital to create a well-diversified portfolio, they can instead buy units of diversified equity funds that have minimum investment requirements of as low as ₹ 5,000.

PROFESSIONAL MANAGEMENT

Mutual funds are managed by experienced and professional fund managers who have expertise in picking the best stocks for optimal risk-adjusted returns.

ECONOMIES OF SCALE IN TRANSACTION COSTS

Due to the fact that mutual funds trade securities in large volumes, the transaction costs on a per-unit basis is far lower than those involved in direct trading of stocks.

TAX EFFICIENCY

Mutual funds provide some tax benefits over and above those available when investing in equity. Long-term capital gains on sale of equity-oriented mutual funds are tax exempt if the holding period exceeds 1 year. This means the small portion of debt securities in the fund also gets this benefit.

For debt funds having holding period more than 3 years, the long-term capital gains are taxed at 20% with indexation which leads to a far lower effective tax rates, especially for investors in the higher tax bracket. Further Arbitrage funds provide high security of capital (as debt funds) but are treated as equity funds, thus, capital gains are exempt after 1 year.

HIGH LIQUIDITY

Open-ended mutual funds offer high liquidity to its investors. Investors are free to fully or partially redeem their units at any point in time, with a standardized redemption procedure across all funds.

VARIETY IN PRODUCTS

Mutual funds offer an array of products that cater to different risk appetites and investment objectives. For instance, apart from equity funds there are debt funds, balanced funds, index funds, etc. to suit the needs of every investor.

MODES OF INVESTMENTS

Mutual funds also offer flexibility in terms of the modes of investment and withdrawal. Investors are free to choose from different investment modes such as systematic investment plans, lumpsum, systematic transfer plans, etc.

DISCIPLINED INVESTING

The stock market is volatile and can often induce investors to trade over short time periods, which often leads to investors bearing losses. Mutual funds, on the other hand, encourage investments over a long investment horizon. For instance, SIPs encourage a disciplined investment approach to meet long-term financial objectives. Moreover, they also eliminate the effect of emotions on the investment process, as seen in bull and bear markets.

We see that the benefits of investing in mutual funds outweigh those of investing directly in the stock market, especially in the case of new, inexperienced investors. For investors that lack the expertise in stock market investments, mutual funds are a superior investing option as they are wwsafer than the stock market, offer high returns over a long-term horizon and help investors achieve their long-term financial goals ■

HOW EQUITY LINKED SAVING SCHEME (ELSS) HELPS SAVE TAXES AND BUILD WEALTH

Make your ₹ 1.5 lakh exemption limit count! It's that time of the year again when people start planning their taxes. Given the deadline to be met, most people invest without much deliberation on the tax-saving instruments at hand. Tax Saving Instruments can reduce your taxable salary by upto ₹1.5 lakh* and thereby reduce your tax liability. Here's a look on how Equity Linked Savings Scheme can help you to not only save tax but also as generate wealth in the long-term.

COMBINE TAX PLANNING WITH INVESTMENT PLANNING

*Investments up to Rs. 1.50 lakhs are qualified for deduction from taxable income under section 80C of the Income Tax Act, 1961

1 IT COMBINES TAX PLANNING WITH INVESTMENT PLANNING

The tax deduction for these investments is of EEE category. EEE stands for Exempt, Exempt, and Exempt. It means there is tax exemption in the investment. The interest earning is tax free. The maturity amount also does not attract any tax. Also given, there is no maximum investment limit in ELSS funds, investors often choose these funds for their performance and not for tax saving purpose alone.

2 ENABLES DISCIPLINE REQUIRED FOR EQUITY INVESTMENT

Mutual Funds offer facilities like SIP and SWP which are efficient mechanisms for disciplined investment in equity. Infact ELSS through SIP is one of the most effective ways to build a corpus as well as avoid last minute lumpsum investments at the end-of the year.

3 AIMS AT WEALTH CREATION

The ideal way to go about tax planning is to take the maximum benefit of exemptions and at the same time grow your investment over the tenure of lock-in. ELSS funds come with the least lock-in period of 3 years which is a reasonably good period of time for equity to generate returns through capital appreciation and actually help in wealth generation.

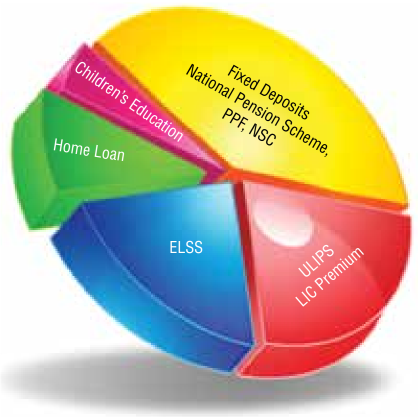
4 EFFICIENT PRODUCT STRUCTURE AIDS FUND MANAGEMENT

While most ELSS funds are primarily seen as tax saving investments, these are actually managed as diversified equity funds. Given the lock-in, the fund manager can invest with a longer view of 3 years and above without worrying about short-term market volatility and frequent redemption pressures. Lower portfolio turnover reduces fund volatility and contributes towards better management of the fund.

5 POTENTIAL FOR POSITIVE REAL RETURNS

Think of where inflation can reach in 5 years from now and choose an investment which actually has the potential to beat inflation. Fixed deposits, bonds and other interest bearing investments generally offer returns that are at-par with inflation over a period of time but the real return is low. ELSS funds invest in equity, hence, their returns are market linked. The equity orientation gives the potential for capital appreciation and positive real returns.

Sec 80 C Instruments



- EQUITY
- INSURANCE
- FIXED INCOME
- LONG-TERM EXPENSES
- SHORT-TERM EXPENSES

Last but not the least, if the fund is performing well, there is no need to withdraw even after the lock-in period is over. Having claimed your exemption, you may let your investment tree continue to bear fruits in the future!

Contributed by **Axis Mutual Fund**

Twice as Nice

WHY A UNIT LINKED INVESTMENT PLAN MAY BE YOUR IDEAL INVESTMENT OPTION

Most of us are aware of life insurance policies whose primary motive is to provide financial security to the policyholder's family in the unfortunate event of his death. It is a contractual agreement between a policyholder and a life insurance company where the policyholder agrees to make payments to the company at regular intervals (termed as premiums)and in turn the company agrees to pay the beneficiaries a sum of money if they pass away.

Now, what if we say life insurance, in addition to the major benefits it offers, also helps you earn an income? Incredible and true! As many of us may not be aware a Unit Linked Insurance Plan (ULIP) gives its investors both insurance cover and investment under a single integrated plan. It provides risk cover for the policy holder along with investment options to invest in any number of qualified investments such as stocks, bonds or mutual funds. Under this plan, one part of the premium paid goes towards insurance and another part goes towards investment. ULIP offers investors options to invest in equity as well as debt depending on their investment goals and risk appetite. If you want to grow your wealth and don't mind taking some risk, you can pick an equity oriented fund option. On the other hand, if you wish for a steady return on your investment, you can go with the debt option. Equity funds include investments such as buying shares of companies. Debt funds invest in government or company bonds. Balanced funds are those that invest equal proportions in equity and debt funds.

Apart from providing life cover which is its primary purpose, a ULIP can be used for a number of advantages to the policyholders. Here are some reasons why it may be your idea investment option:

ANNUITY PLANS

You can build a ULIP plan where you save and invest during your working years and after retirement; you draw the benefits of your investments in the form of regular pay-outs called 'Annuity'. Annuity plans are highly recommended in case you do not have a suitable retirement plan. In case you already have a retirement plan, ULIP offers a wide range of flexible plans where you can structure your own post-retirement pay-outs. Also, after a stipulated period, you are allowed to withdraw up to 33% of your accumulated amount. This withdrawal is called commutation and is completely tax-free. The balance is to be received in annuities. In the unfortunate event of the death of a policyholder, ULIP can give a stable income to the policyholder's family.

EXPERTISE AT YOUR DISPOSAL

Investments under ULIP are managed by fund managers from the insurance company. For those who may not have the understanding or time to track the markets, you have the option to leave the investing decisions to these expert fund managers by opting for fund options such as asset allocation or wheel of life portfolio options. In an asset allocation fund, the insurer's fund manager switches between equity and debt funds considering the view of the market. In the 'Wheel of Life' strategy, the investment is managed in a pre-defined manner with automatic switches. However, these fund managers are usually more conservative than fund managers of mutual funds.

TAX ADVANTAGES

ULIPs also act as a very good tax saving option. For individuals and HUF (Hindu Undivided Family) policyholders,the premium paid towards a ULIP is allowed as a deduction under Section 80C of the Income Tax Act, up to a permissible limit which is currently fixed at ₹ 1.5 lacs. This is subject to the condition that the premium amount should be less than 10% of the sum assured under the ULIP. For corporate policyholders, though deductions under Section 80C is not applicable, the premium paid on Keyman insurance are treated as business expenses and the company can save 30% plus surcharge on every Rupee of premium paid for such a policy as per current tax law. It leads to indirect tax benefits of around 34%.

Also, under Section 10(10D), for life insurance ULIP policy the amount received on partial withdrawal or maturity is exempt from tax provided the premium payable by the policyholder for the sum assured does not exceed 10%. This exemption is applicable for individuals, HUFs and for Keyman insurance policies.

SWITCHING ADVANTAGES

ULIP investments allow you the option to switch from one asset class to another or modify the proportion in which funds are invested in equity, debt, and money market instruments. A major benefit of this switching option is that gains from such switches are not considered as capital gains and hence these are tax-free. Thus you can buy and sell in short-term without incurring any short-term capital gains. Entry load and exit load are not applicable to such switches although there can be restrictions on the number and frequency of such switching. Most insurance policies offer a number of free switches in a year, and for additional switches, a small fee is charged.

LIQUID AFTER 5 YEARS

ULIP also offers the benefit of partial withdrawal to policyholders to cope with unforeseen circumstances. Upon the fulfillment of a minimum lock-in period of five years, you can withdraw funds from your Unit Linked account, retaining only a stipulated minimum amount. The partial withdrawals are completely tax-free, provided they are made after the completion of the lock-in period. This means that investment in debt fund done in 5th year and withdrawn in 6th year can be tax-free if it is done through ULIP. This feature allows individuals to use ULIP plan for significant milestones like home purchase, education or marriage of children.

All in all, ULIPs are versatile investments which can give you a number of advantages if used appropriately. You can combine your own risk profile depending on your need. ULIP offers flexibility in choosing your own life cover, premium amount, rider benefits, and fund options. However, it is very important to understand all the aspects of this investment product before making the plunge. That way you can reap the utmost benefits of this product ■

WISDOM OF THE ANT

HOW TO PLAN YOUR RETIREMENT

Retirement is inevitable. It is bound to happen sooner or later. Retirement planning is something like preparing for the winter in the story "Ant and the Grasshopper". There's something to do 'now' so that there's comfort 'later'. So if you're wondering when you should start working towards your retirement, the answer is now.

The idea of retirement is "oh so relaxing "– the point in life where you don't have to work, when you can pursue all your hobbies, travel and take afternoon siestas at will. What a glorious vision! Too good to be true? Not necessarily, but it does require some planning up ahead.

After retirement, you have about 10 odd years when you will need money to sustain yourself and fulfill your glorious vision of retirement.

In India, life expectancy has increased by 10 years in the past two decades. WHO World Statistics Report 2016 found that in the year 2015 life expectancy at birth was 68.3 years in India. While this speaks volumes for India's progress, it also means that the gap between your retirement age and your life expectancy is increasing. Ironically, old age is when your medical and other health care expenses start rising. Thus, there needs to be a pool of funds available to you when you need it the most.

So start saving whatever little you can because with a long-term goal such as retirement, consistency is the absolute key. Remember every drop makes the ocean! Also, the sooner you start investing, the longer you have for your money to grow. This means you can have a greater exposure to investment in equity which means higher returns.

A good way to invest into equity is through a Mutual Fund Systematic Investment Plan (SIP). Not only does it help one get into the discipline of investing, but it also helps minimize the risk associated with equity investments by averaging out the ups and downs of the market over a long horizon of time. Even with a small amount of monthly SIP, you can generate a considerable corpus given a long enough timeline, so the sooner you start, the better!

To illustrate – say you start investing ₹10,000 every month and continue the routine for 20 years, the total amount invested would be ₹ 24,00,000. Assuming an expected annual return of 15%, this sum will amount to an approximate of ₹1,50,00,000 after 20 years!

This happens due to the compounding effect. What that means is, if you invest ₹ 100 today and say earn 10% return i.e. ₹ 10 at the end of year 1, then the next year you will earn not ₹ 10 but ₹ 11. The extra ₹ 1 is the return on the income of the previous year. Accordingly, the following year your return will be ₹ 12.1 and so. This income on income creates a snowball effect that can produce a large corpus with even modest investments made at regular intervals.

While equity gives higher returns (with higher risks of course), debt provides lower returns but with security of capital. A right mix of both is important depending on how you have planned your retirement. Generally speaking, higher equity in the pre-retirement saving phase is recommended to create a larger corpus, and as you move closer towards your retirement, the proportion of debt should increase. After retirement, almost your entire corpus should be invested debt securities to ensure safety of capital. Another important factor to be considered is inflation. Even if a consistent lifestyle is maintained, annual spending increases automatically every year due to inflation. This also affects the debt equity ratio of your investment at different milestones of your life upto, and after, retirement.

So say you started investing early and now have a large enough corpus at the time of your retirement. Post retirement the idea is that your investment should continue growing while supporting you and your needs comfortably. Since there is no income accruing after retirement (except from your investments) the following are important factors to consider while choosing the right investment:

1. SAFETY OF CAPITAL

Extremely important, you don't want to risk diminution of your capital at this stage.

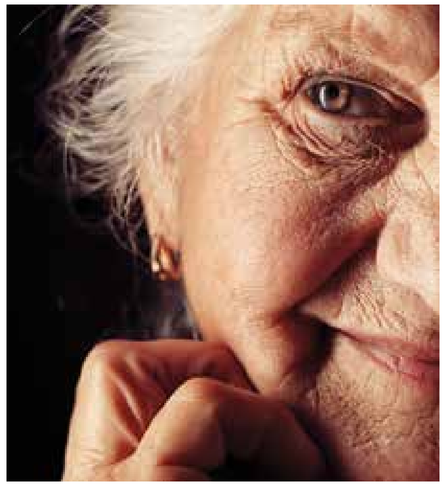
2. LIQUIDITY

Again very important since you may require money at any time. Your funds should be within reach easily.

3. TAX EFFICIENCY

Although not a decision-maker, this definitely is an influencing factor. Lower taxes on income is definitely a plus.

Thus, debt based securities are a good option, they provide security of capital as well as risk free returns. While bank fixed deposits are popular, interest earned is taxable. Mutual funds provide very low tax returns in debt funds after a period of 3 years (after considering indexation) that too with marginally better returns.



Further, since you would be liquidating a part of your investment every once in a while for your running expenses, its wise to think about how you are going to do that as well. You could opt for a dividend plan that would give you a regular cash flow (although this is not very tax efficient) or you could sell some of your shares/units. An efficient tool for liquidating investments is a Systematic Withdrawal Plan (SWP). It's just like a SIP except here you are selling mutual fund units for money. This way you can opt for a growth plan for your SIP - which means your fund buys more units with your earnings and reinvests them into the market. While after retirement, you can systematically sell as many units to give you a fixed sum every month while the rest of your money continues to remain invested. Annuity/pension plan of Unit Linked Insurance Plans (ULIP) is also a good option as it provides a fixed regular income.

Retirement will impact your life in more aspects than just finance. It essentially means that you will no longer be working which automatically gives you more time on your hands – to worry or to enjoy. That's why it's important for you to have a well-structured retirement plan for the peace of your mental, social, physical and spiritual aspect of daily life ■

TELECOM WARS

GREAT FOR THE CONSUMERS BUT WHAT ABOUT THE INVESTORS ?

While the telecom sector has constantly been in news making headlines, creating huge amount of excitement in the media, the story for the investors in the past 8-9 years is far from exciting but actually of frustration of the sector leaders not delivering sustainable returns.

On September 2, 2016, at the Annual General Meeting (AGM) of Reliance Industries (RIL), when Mr. Mukesh Ambani formally announced the launch of its telecom services, Reliance Jio. In a matter of a couple of hours, almost ₹ 12,000 crores (US $ 1.80 Billion) of market value was lost, by the two leading telecom companies, Bharti Airtel and Idea Cellular, which was approximately 8-9% of value lost in a single day. While it seemed like a knee jerk reaction on that day, with the announcement from RIL, marking a new chapter in India's hugely successful telecom growth story, the story over the past decade, for investors has been a rather very different one. A rather sad one.

While the telecom sector has constantly been in news making headlines, creating huge amount of excitement in the media, the story for the investors in the past 8-9 years is far from exciting but actually of frustration of the sector leaders not delivering sustainable returns. If the telecom sector has grown by leaps and bounds, penetration has increased multi-fold and contributing in various meaningful ways to the government in the form of revenues, why has it been so sad and frustrating for the investors?

A few facts first

At the height of the global financial crisis, (2008-09), Bharti Airtel had hit a low of ₹ 285 in March 2009. In May of 2010, it hit a new low of ₹ 265. in 2012, it made a new low of ₹ 242. The stock since 2008 has been hovering in the range of ₹ 280-425 for the past nine years. Returns to traders/investors, if they have made, have been only for those who traded smartly within this price range. To be fair, there have been multiple opportunities to do so, is a silver-lining. But what about the long-term investors? The stock price was ₹ 300 during the financial crisis and continues to be in the whereabouts as seen in the chart below.

The story of Idea is slightly better but it has worsened in the last eighteen months.

Idea had made a low of ₹ 39 in October of 2008 and subsequently had recovered making higher tops and higher bottoms to ultimately peak out at ₹ 192 in April 2015. So returns were made for traders/ investors who rode any part of the rally in almost 6 year and importantly booked profits. Subsequently it has lost 52% of its value to ₹ 94 as of August-end, 2016, one day before the bloodbath on account of Reliance Jio's announcement. So a substantial part of value creation of Idea between FY2007-15, was undone in 2015-16as the stock returned to the price it was trading at in 2011-12.

The same is shown in the charts below:

Telecom as a sector has been at best not creating value, or eroding value for the past almost 9 years, when seen in comparison with large parts of the Indian Corporate sector, which have created tremendous value in the past nine years. The erosion is definitely not on account of launch of Reliance Jio, at least not as yet.

It is said, in the long-term, stock prices reflect the underlying fundamentals of the companies in terms of growth in profits, cash-flows, dividends, return on equity, return on capital employed etc.

Let us examine the factors, how the performance of the two companies stack up.

For Bharti Airtel it's a story of loading up of debt while profits and profit margins have been steadily declining over the years. The debt of Bharti Airtel between FY2007 to FY2016, ballooned 19 times from ₹ 5,286 crores to ₹ 100,032 crores, Compounded Annual Growth Rate (CAGR) of a growth of 39% p.a. Debt equity ratio increased from 0.46 times to 2.36 times between FY2007-FY2016.

The Consolidated Total Revenues and Operating Profit (before Interest, Depreciation and Tax) between FY2007 and FY2016 grew by a mere 5 times and 4 times respectively, i.e. CAGR of 21% and 17% p.a. Net Profit in FY2016 was more or less at the same levels as ₹ 4457 crores vs 4062 crores in FY2007. Net profit peaked at ₹ 9163 crores in FY2010 and subsequently has been on a downward trajectory.

As a result the Return on Capital and Return on Equity have collapsed from 23% to 8% and 42% to 11% respectively.

In case of Idea, the numbers are relatively much better.

While total debt between FY2007 and FY2016, grew 9 times from ₹ 4,251crores to ₹ 38,214 crores, CAGR of 28%. Total Revenues almost maintained pace, growing 8 times, CAGR of 26% and Operating profit grew 10 times, CAGR of 29%. At net profit level, growth was by 6 times, CAGR of 23% during FY2007 and FY2016. As a result, in case of Idea, the fall in Return on Capital Employed and Return on Equity was less dramatic falling from 13% to 9% and 22% to 12% respectively. Debt equity actually fell from 1.95 times to 1.48 times between FY2007 and FY2016. This is what contributed to the rally in Idea from the lows of ₹ 40 to ₹ 190 between 2009-15. It is only in FY2016 that net profit dipped marginally.

Let us remind ourselves, that all this was happening even before the launch of Reliance Jio.

What are the reasons for this and what lessons does it hold for investors?

Among the key reasons have been increased competitive intensity in a typically four cornered fight in every circle/territory. This ensured deeper penetration and hence higher volumes albeit with pricing/tariff erosion. The government also played its part in worsening of the economics of the sector with the aim of maximizing the revenues from airwaves with its high priced spectrum auctions. The incumbent players had little choice but to bid aggressively for spectrum putting tremendous pressure on costs (and on balance sheets as well).

While the above two factors are generic to the sector, in case of Bharti Airtel its misadventure of Investment via acquisition in African continent in hindsight seem like a mill stone on its neck. Not only have the losses been huge (diluting the profits and good performance from India operations) but also the huge amount of debt taken to fund and sustain the acquisition without corresponding returns has put tremendous pressure on its finances. This becomes problematic for Bharti Airtel, precisely when it needs all the firepower to compete against the deep pockets of RIL.

So to conclude, as a sector telecom will be absolutely a no go area for investors except for trading opportunities from time to time depending upon market conditions. Long-term decline in terms of profitability, sub-par Return on Capital and Return on Equity will be the order of the day for everybody. Of course, the existing and new telecom players will fight it out fiercely since it is a question of their survival, but the key question to ask is, they will fight it out at whose cost? For the investors it would be too high a cost to pay in battles of survival and clashes of egos between the big boys ■

Vivek Mavani

Vivek Mavani is a SEBI Registered Investment Advisor based in Mumbai.

EXPERT SPEAK

"This surgical strike did take the market by surprise and created initial bout of apprehension. The future course, of market will be determined by how the situation evolves. Some strategists believe that the surgical strike has the potential to bring equilibrium in relationship and de-escalate the situation. The official denial of the strike by Pakistan indicates that equilibrium to some extent.

THE MARKET'S RESPONSE TO INDIA'S SURGICAL STRIKE

Dear Friends,

The issues surrounding India-Pakistan imbroglio in the past few weeks; and the impact emanating from the Indian surgical strike spooked the rates, Rupee and equity market for a day.

This experience during the 1999 Kargil invasion suggests that the market reacted negatively in the first phase of the crisis. But a decisive and a de-escalatory response removed the initial nervousness and apprehension and allowed market to bounce back. Sensex was up by more than 25% by the end of Kargil war.

It is the nature of the market to react instinctively and be apprehensive and fearful in the beginning and later-on take stock of the situation with a cool mind. We have large presence of FIIs from all over the world. The decision makers in far flung places are likely to take decision based on what they read and hear in their local, media. Their decision making could be different from the decision making of domestic investors at least in the short-term. Over a longer period of time fundamentals prevails over emotions and perceptions.

This surgical strike did take market by surprise and created initial bout of apprehension. This future course of market will be determined by how the situation evolves. Some strategists believe that the surgical strike has the potential to bring equilibrium in relationship & de-escalate the situation. This official denial of the strike by Pakistan indicate that equilibrium to some extent. Major economies of the world share India's concern and their media have reflected India's position and the need for Pakistan to dismantle terror network. We expect such coverage to allay the concerns of FII to a great extent.

If we observe almost similar rivalries (in the past and present) between other nations in history: be it between USA and USSR, West & East Germany, South and North Korea, or Israel and Egypt. There was/is a pattern that emerges. The USA, West Germany, South Korea and Israel (former group) all never lost focus from their economic growth; and infact gave urgency to it. They had a similar growth model: market oriented driven by technological innovation and led by knowledge enterprise.

So while the USSR, East Germany, North Korea, Egypt (latter group) were investing overwhelmingly for military ascendance ,the former countries were investing in schools, Universities & infrastructure, innovation, market, and communication-without losing out to the power balance with their competitor.

The result was the GDP out-performance and knowledge growth in former countries that provided economic lead which increased the funds they could allocate to their defense (relatively painlessly) and also take generational leap in technology. Thus, over a two to four decade period, the former countries were miles ahead in technological and economic might give sharp teeth to their potency. On the other hand, the latter countries found it difficult to match the competition with their rivals as their economy could not bear the burden and thus, either collapsed (like USSR, East Germany) or normalized their relations with their rival (like Egypt) or were relegated (like North Korea).

India too will be able to maneuver Pakistan by the act of her schools, Universities, factories, markets and laboratories. Already India's higher GDP growth rate over the past two decades was able to close the per capita gap with Pakistan, and outdo it.

We must look to double/triple our per-capita ratio with Pakistan over the next decade. This will force Pakistan to follow India's path to educate and improve the their masses which invariably means pursuing a rational strategy or they lag behind significantly and face an overwhelming technological and economic behemoth. And Indian policy makers know this.

For this reason, I remain convinced that the short-term volatility in the Indian equities market is a reason to accumulate for a long-term wealth creation. From the financial market viewpoint, the asset quality trouble in the markets in Europe and US may cause volatility globally. Indian investors are advised to resort to SIPs to tide over any such movements and gain from its long-term compounding effect.

Regards,

Nilesh Shah
Managing Director
Kotak Mutual Fund

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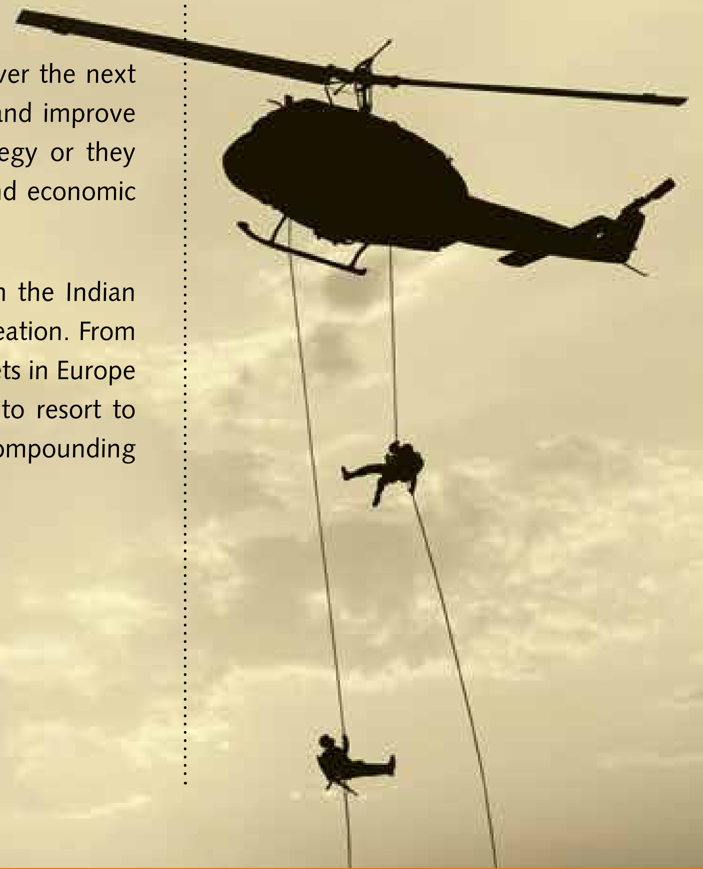

FAQ

WHAT IS KYC?

KYC stands for "Know your Client". As per SEBI guidelines, a person can invest with a SEBI registered Mutual Fund only if he/she is KYC compliant.

WHERE AND HOW CAN I GET MY KYC DONE?

CDSL Ventures Limited ('CVL'), a wholly owned subsidiary of Central Depository Services (India) Limited, carries out centralized processing of KYC requests on behalf of all Mutual Funds. CVL has many Points of Service counters where KYC application forms can be submitted. Thereafter verification of the documents, a KYC Acknowledgement is provided.

WHAT DO I DO ONCE I HAVE RECEIVED MY KYC ACKNOWLEDGEMENT?

Once the investor is KYC compliant, he/she is required to intimate his KYC details to all Mutual Funds with whom he wishes to invest by quoting the folio numbers. The same will be updated in the records of the Mutual Fund.

DO I NEED TO GET A KYC FOR EACH MUTUAL FUND THAT I INVEST WITH?

No, KYC is only required to be done once.

WHAT DOCUMENTS NEED TO BE SUBMITTED TO BECOME KYC COMPLIANT?

INDIVIDUALS

Proof of identity (True copy of Pan Card is mandatory) and true copy of proof of address (any document admissible as proof of address such as passport, voter ID, ration card, driving license)

NON- INDIVIDUALS

Proof of Registration, resolution, list of signatories, audited financials of previous two financial years and PAN and address proof of Directors/ signatories.

HOW CAN NON-RESIDENT INDIANS BECOME KYC COMPLIANT?

True copy of passport along with true copy of his/her overseas and permanent residence. If the documents are in a foreign language, they will be required to be translated in English. All documents are required to be attested by the Consulate office or overseas branches of scheduled commercial banks registered in India.

HOW LONG IS A KYC VALID FOR? DO I NEED TO RENEW IT?

KYC once registered is valid for lifetime unless cancelled by CDSL Ventures Limited (CVL).

WHAT IS THE FEE FOR GETTING A KYC?

Currently, KYC is done free of cost ■

Every individual is unique and so are his or her investment needs. Investment planning must always be aligned with one's goals. Hence, our approach is to help you chalk out an investment strategy that is best fit for 'you'.

We see ourselves as educators rather than advisors. Our endeavor is to build awareness about the various kinds of investment products in the market. After all, an informed decision is always a better decision.

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