MONTHLY NEWSLETTER – MARCH 2016

I-CAN FINANCIAL SOLUTIONS

MARKET UPDATE

Sensex : Down 7.51% Nifty : Down 7.62%	
Best performing sector: FMCG (-4.36%)	Worst performing sector: Power (-13.92%)
Best performing global index: Indonesia Jakarta Composite (3.38%)	Worst performing global index: Japan Nikkei 225 (-8.51%)
Indian Rupee: (-0.40%)	Gold price: (9.73%)

February was a brutal month for Indian markets. The benchmark indices fell by more than 7.5%. FIIs were net sellers with outflows of Rs. 5,521 crore from equity and Rs. 8,195 crore from debt markets. However, the month ended on a positive note with the unveiling of the Union Budget 2016-17. The Budget was a balanced one – with focus on fiscal disciple, consumption revival and focus on boosting the rural economy which has been affected by two consecutive years of droughts. Some of the important highlights of the Budget:

- FY17 fiscal deficit target retained at 3.5%
- Total allocation of Rs.2.18 trillion for roads and railways this fiscal; Total outlay for infrastructure in Budget Estimates is at Rs.2.21 trillion
- Allocation of Rs. 35,984 crore to Agriculture
- Rs 38,500 crore for MNREGA – highest ever amount
- New manufacturing companies incorporated on or after 1 March 2016 will be taxed at 25%
- Banks—Rs. 25,000 crore to be provided for recapitalization of public sector banks, which are grappling with stressed assets
- Ceiling of tax rebate at Rs 5,000 for income less than Rs 5 lakh
- Relief to people living in rented houses—Deduction for rent paid will be raised from Rs. 20,000 to Rs. 60,000 to benefit those living in rented houses
- Dividend Distribution Tax of 10% for Dividend above Rs. 10 lakh
- 0.5% Krishi Kalyan surcharge cess on all taxable services from 1 June 2016, to be given to agriculture development
- 100% rural electrification target by 1st May 2018

The Rail Budget was presented on 26th February. There was no hike in passenger fares. Initiatives like 17,000 biotoilets and additional toilets in 475 stations before the close of this financial year, Wifi at 100 stations this year, Increased quota for senior citizens and women travellers this year, Deen Dayal coaches for long distance trains for unreserved passengers and enhanced capacity of e-ticketing system from

2,000 tickets/min to 7,200/min were announced.

Wholesale prices fell for the 15th straight month in January this year. It was -0.9% in the month compared to -0.73% in December 2015. Consumer price index-based inflation rose to a 17-month high of 5.69% in January from 5.61% in the previous month. Fall in India's goods export continued in January — the 14th consecutive month of decline.

India's economic growth for the financial year 2016 has been estimated at 7.6 per cent. GDP for 3Q FY16 came in at 7.3%

Personal Finance:

- Equity mutual funds witnessed in January inflows worth Rs 2,914 crore, the lowest level in the last 20 months, mainly on account of weakness in stock markets and appreciation in gold prices.
- The Insurance Regulatory and Development Authority of India (IRDAI) mandated that e-policies will have to be issued for certain kinds of insurance plans.
- The Employees' Provident Fund Organization (EPFO) announced an 8.8% interest rate on provident fund savings for 2015-16.
- The government has reduced the rate of interest on some short-term small savings schemes, effective from 1 April 2016

On the global front various challenges remain. China slowdown continues. The Bank of Japan decided to implement negative interest rates. Presumably, the new target of -0.1% will be achieved through more purchases of assets such as exchange-traded funds and real estate investment trusts, as well as government bonds. This led to a large sell off in the Japanese equity markets. According to OECD, "Global economic prospects remain clouded in the near term as emerging markets are losing steam and a coherent policy response is needed to boost overall growth".

Based on the fiscal management plan of the government there is a case for RBI to cut interest rates in its next policy.

CHANGES IN SMALL SAVING RATES:

Small Saving Product	Maturity	Current Rate of Interest	Revised Interest Rate (Effective 1 April 2016)	Minimum Investment
Kisan Vikas Patra	8 years 4 months	8.70	8.45	1,000
Post Office Time Deposit	1, 2 & 3 years	8.40	8.15	200
Recurring Deposit (Post office)	5 years	8.40	8.15	10

Personal Loan

A Personal Loan is taken by a borrower for his/her individual wants and needs; it is commonly referred to as an unsecured loan because there is no security/collateral against it. It is usually taken by borrowers who are looking for quick and easy loans with manageable interest rate and minimum documentation. You can use a personal loan as per your convenience without being monitored for the actual end usage. It is also called “All-purpose loan” at times as there is no restriction on the end use of the funds.

Borrowers use personal loans for various reasons such as vacations, refurnishing their homes, buying a new appliance, to fund weddings etc. All personal expenses the borrower wants to make can be made by availing a personal loan.

HOW DO PERSONAL LOANS WORK?

Personal loans work in very much the same manner as any other types of loans. You borrow a certain amount of money from a bank or lender so that you can pay for the things you need to. You will have an agreement with the lender to pay back your loan in monthly, fortnightly or weekly repayments.

Essentially, a personal loan helps you fill a short-term or long-term need for finance. You apply for a loan from a lender who then assesses your suitability for the loan, and if you are approved the lender will send you the funds for the loan. Your repayments will include the principal loan amount plus fees and interest. If you make your repayments as set out in your loan contract, your entire loan will be repaid when your loan term ends.

There are many different features of a personal loan, some of these include:

- **Interest rates:** This is what you are being charged for the amount of money you borrow. The interest rate can be fixed or variable, with a fixed rate remaining the same for the entire loan term, and a variable rate being able to fluctuate in response to market conditions. It's important to compare rates to ensure you find one that is competitive.
- **Repayment flexibility:** Lenders usually allow you to select weekly, fortnightly or monthly repayments via automatic direct debit. If the rate is variable you usually have more repayment flexibility, such as being able to make additional repayments or pay off the loan early without penalty. If you have a fixed rate you may be charged a fee for doing so.
- **Loan term:** This refers to the life of the loan. A longer term generally means smaller repayment amounts, while a shorter term means larger repayments but you will pay back less overall.
- **Fees and charges:** You must be aware of all possible charges associated with a personal loan. Some fees include monthly service fees, late repayment penalty fees, early repayment fees and application fees.

THE PROS AND CONS OF PERSONAL LOANS

Personal loans do offer you many benefits. Here are some of the most important ones:

- **Easily Available:** Getting a personal loan is not a tough task. Personal loans are offered at reasonable interest rates by almost all banks and financial institutions. It is easy and convenient to get these loans in comparison to other types of loans.
- **Quick availability:** Getting the personal loans is very fast. In some cases, you can get the loan even within 24 hours. So if you are looking for emergency funds, personal loans are your best bet.
- **Minimal documentation required:** Normally, personal loans don't need much documentation, as compared to a home loan or car loan. Hence the processing time is quicker.
- **Amount and Tenure:** Personal loans are offered ranging from Rs 15K to Rs 20 lakhs varying from bank to bank. The repayment can be made through EMIs which is an option available. Loans tenure may depend upon the amount borrowed and may be from 12 months to 60 months. It is always advisable to opt for a personal loan instead of going in for borrowing cash from credit card as the interest rate is comparatively low for the first one.

Despite their apparent attractiveness, personal loans do have their fair share of disadvantages. Prominent amongst them are:

- **Qualification Criteria:** The primary Personal Loan eligibility criteria from is that you should be a salaried professional between 25-58 years of age. You need to qualify for a personal loan as per the guidelines of the bank and once you do that there is no delay. The guidelines vary from one bank to the other and the lenders do observe strict guidelines in this case as there is no collateral security.
- **High interest rates:** As these loans don't need any security, they are regarded as high risk by the lenders. In order to offset their risks, these loans carry very high interest charges.
- **Need for good credit rating:** As these loans are quite risky, most lenders insist on their borrowers having a good credit rating. So prior to applying for your personal loan make sure you have a good credit history without any default in payments. It is mandatory for you to have a good credit history when you apply for a personal loan or else your application may get rejected. Hence this loan availability is subject to strict eligibility norms based on credit worthiness.
- **No part payments:** Most lenders don't allow part payment of loans. This means you end up paying the loan for the entire tenure of the loan. It can work out quite expensive, since your initial installments go towards interest payments.
- **Variable loan and interest as per your credit rating:** Even those lenders, who offer loans to the borrowers with poor rating, end up offering lower principal amount and higher interest as compared to those given to borrowers with good rating. They also impose

stricter repayment terms on these borrowers.

While applying for a Personal Loan, make sure you borrow within your means or else the repayment will become a long and tedious process which could affect your credit history and credit score if you have outstanding payments. Personal loans are one of the most expensive forms of loan available in the market. Choose carefully after conducting due research and understanding of the cost & the benefits involved. Lastly, decide if you can do away with the loan. While this loan may be useful in certain instances like medical emergencies, it doesn't make sense if you are using it to fund your vacations. Hence it very important for you to weigh the pros and cons before apply for a personal loan.

AMC Views

Equity Outlook (Axis Mutual Fund)

Global:

After a big sell-off in January, global markets remained under pressure, although there were some signs of stability in February. Commodities (including base metals and crude) recovered from their cyclical lows hit earlier this year. Dollar gave up some of its gains against major currencies. Gold continued its really strong performance in 2016. Indian markets were hit hard and fell sharply. Frontline Indian indices (such as Sensex and Nifty) were down more than 7% for the month of February 2016. The sell-off in Indian markets has seen midcaps under-perform large caps in 2016. It is notable that during 2015 midcaps had continued rallying even when large caps had been under pressure.

The global economy and markets are facing a number of challenges simultaneously. These include slowing growth in China, sharp sell-off in commodities, pressure on European banks, weakness in EM currencies and assets. After remaining sheltered over the last year's sell-off, India equities underperformed other major markets in February. The markets got hit by a number of concerns including a weak earning season, and talk of changes in capital gains tax structure in the Union budget.

Domestic:

Economic growth remains uneven. GDP for 3Q FY16 came in at 7.3% even as full year GDP is forecasted at 7.6%. However the disaggregated numbers for industrial production, core sector as well as corporate earnings paint a picture of an economy where growth is significantly weaker than indicated by the headline GDP data.

Union budget for the coming fiscal year was presented on 29th Feb. The key highlight of the budget was that the government chose to remain on the path of fiscal consolidation that it had projected in the previous year. This is a strong vote in favour of achieving macro stability for the economy that will make us more resilient to future shocks – crucial given the state of the global economy.

The budget was essentially a balancing act, during what is a challenging period for the economy. On the one hand, the government needed to push capex in the infrastructure sectors, but had to fund it without affecting the fiscal consolidation roadmap. They have walked the tightrope reasonably. The government has continued to push for infrastructure investment, but has also added focus on rural and farm infrastructure through areas such as roads and irrigation. The government also continued to push forward its agenda of setting up a social security framework for the general population through measures such as health insurance, crop insurance and pension incentives. Some of the crucial reforms going forward (including GST and bankruptcy law) need to happen outside the budget and will need attention going forward.

Equity market valuation remains reasonable and has gotten better following the sell-off. We remain bullish on equities from a medium to long term perspective. Investors are suggested to have their asset allocation plan based on one's risk appetite and future goals in life.

Debt Outlook (IDFC Mutual Fund)

The Union Budget came as a pleasant surprise to bond markets. First it adhered to the 3.5% fiscal deficit target, despite some recent rumblings that this target should be reassessed. Second, it printed a gross borrowing number of only INR 6 lakh crores for the next financial year; showing an actual reduction in net market borrowing to INR 4.25 lakh crores versus INR 4.41 lakh crores in FY 16. At a headline level then, the RBI's precondition for the next rate cut is also seemingly met. Given this, there is now a strong expectation of a rate cut anytime between now and the April credit policy. Since yields had risen aggressively in the past month or so, participants have been rewarded with a handsome rally post the Budget.

Overall, it is quite likely that the RBI obliges with a rate cut by the April policy. Beyond that the path of monetary policy is not that obvious. This is because even though CPI is broadly stable in the 5 – 5.25% zone, it has been reluctant to break below this mark despite the best of dis-inflationary pressures. Going forward rural wages are likely to increase from the current 2 – 4% rate. This is imminently required both from a welfare as well as a political perspective. Indeed, enough recognition of this has been forthcoming in the Budget. This will likely further provide a floor to CPI. Given this it is hard to see significantly more room for easing in headline policy rates. The other variable that bond markets will look out for is RBI's actions on liquidity. With the recently concluded economic survey, the government has fully joined the attack on RBI's liquidity stance. Should the RBI undertake new measures to better anchor term rates to the repo, that may potentially act as a bigger catalyst for bonds rather than a notional 25 bps rate cut.

Finally in terms of bond strategy, we maintain our preference for front end rates, as represented chiefly by the 1 - 5 year sector of the yield curve. While there is every likelihood that this sector may tactically underperform over the next month (after having massively outperformed since December) as the market acts in relief of a lower borrowing number and prospects of a rate cut, we believe that the underlying dynamic of excess supply plaguing long end rates is likely to reassert itself starting the new auction supply from April. This is because even though there is tactical relief owing to the lower borrowing number, we think the supply is still likely to be big enough to prevail on market sentiment once auctions actually restart. This is especially true when one also takes into account the state loan supply for the next year. Additionally, as a policy-theme the government is tapping into every available savings pool in order to further its infrastructure spending agenda. This needs to be taken into account when assessing the true extent of 'crowding out'. As a specific instance the LIC will fund railways to the extent of INR 150,000 crores over 5 years; translating into an average requirement of INR 30,000 crores per year. As per reports, the draw-down for current year has been less than INR 5,000 crores. This means that if railways capex were to pick up, and there is every indication from the minister that it will, LIC may be tapped for more than INR 50,000 crores in the year ahead (including 'backlog' from this year). This mutes bond demand by that extent.

Also, should the RBI not sound as dovish when administering the next rate cut (and if the previous policy was any guide it is quite likely it won't) then it will also tell on forward rate expectation of the market; thereby further denting appetite for duration bonds (for details on this, please see our note "Three Dominant Themes for Bond Markets", dated 10^{th} February). Whereas front end rates will respond less to the supply drag since there is virtually no supply here. Also, they will reflect RBI's rate cut and liquidity measures much more fully. Finally, even in the absence of RBI measures, they will provide a significant opportunity for 'roll down' given the current steepness of these rates versus the overnight.

Did you know?

The right ear is better at hearing speech, and the left ear is better at hearing music.

Cartoon of the Month

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