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Editorial

A confluence of positive developments in domestic space has turned the market sentiments positive with strong FII flows. Supported by RBI measures of rate cut and FX swaps, domestic developments and change in view of global growth has supported the market in the last two months. The excess supply in 10Y yields had effect in corporate bond segment, as the credit markets improved and demand rose, the spreads narrowed down across segments and tenures leading to high volumes. We expect short to medium end of the yield curve continues to offer better returns in the long end of the curve.

In sector update section, we have covered about Cement Sector and its outlook.

Under cover story, we have written about Tax saving, new tax slabs and effective instruments you can consider for investing.

In "Learn a Term" segment, we have covered on Real Estate Investment Trust (REIT), as how it operates, investment style and taxation details.

Happy Investing!!!

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MACRO OUTLOOK

The month of March saw a dramatic shift in both global and domestic markets. There was a steep drop in yields across markets and global central banks have changed their outlook to dovish since last policy announcement. There has been a slowdown in global economic activity in both advanced economies like US, UK and Europe and other emerging markets like China, Russia and South America. Markets are driven by stance of central banks and oil outlook.

US Federal Reserve signalled it would no longer hike rates this year amid moderating growth and subdued inflation. European Central Bank (ECB) turned dovish at its March meeting, signalling no rate hikes this year and new round of cheap loans to banks. Ongoing Brexit uncertainty made Bank of England stay cautious and kept the rates unchanged despite rising wage pressures. In Japan, Monetary policy is likely to remain expansionary, while inflation is set to remain below their target of 2%.

With the risk of rising inflation, experts feel this might pose a risk to government bonds in developed markets. Additional compensation for bearing credit risk continues to fall, making investment grade corporate bonds expensive. Therefore it would be preferable to invest in asset classes with better margin of safety against downside risks.

DEBT UPDATE

The MPC as widely expected reduced repo rate by 25 bps from 6.25% to 6%, while keeping stance "neutral". CPI inflation was revised downwards to 2.4% in Q4:18-19, 2.9-3.0% in H1:19-20 and 3.5-3.8% in H2 with risks evenly balanced. GDP growth for 2019-20 is projected slightly downwards to 7.2%; for H1:2019-20 is 6.8 – 7.1% and for H2: 7.3 – 7.4%.

Several risks has been highlighted to inflation outlook, in specific the food prices which is expected stay low in the short term, might see an upward pressure depending on Met forecast and early signs of El Nino effect. Oil prices have been softening in the last few months, but there is uncertainty in the sustainability of this drop and hence the outlook remains uncertain.

Core inflation has remained elevated through the year, but financial markets volatility and trade uncertainty may have an influence on the inflation outlook. Further volatility in global markets, trade tensions and geopolitical uncertainties could adversely impact growth prospects.

OUTLOOK

Given the near term inflation outlook remains benign and growth is moderating, which can provide some space for further easing, however further action will be data dependent and some analysts feel this rate cut cycle might be a shallow one.

RBI has improved the banks flexibility to provide credit, by further increasing the carve out from mandated SLR for the purpose of LCR calculations by 2%. Large increase in gross market borrowings in FY20 over FY19 with low demand on government bonds could put upward pressure on yields.

We expect liquidity to remain in neutral deficit zone over the next couple of months with the support from currency swaps, OMOs in near term. We recommend to look at investing in short term to medium term duration funds.

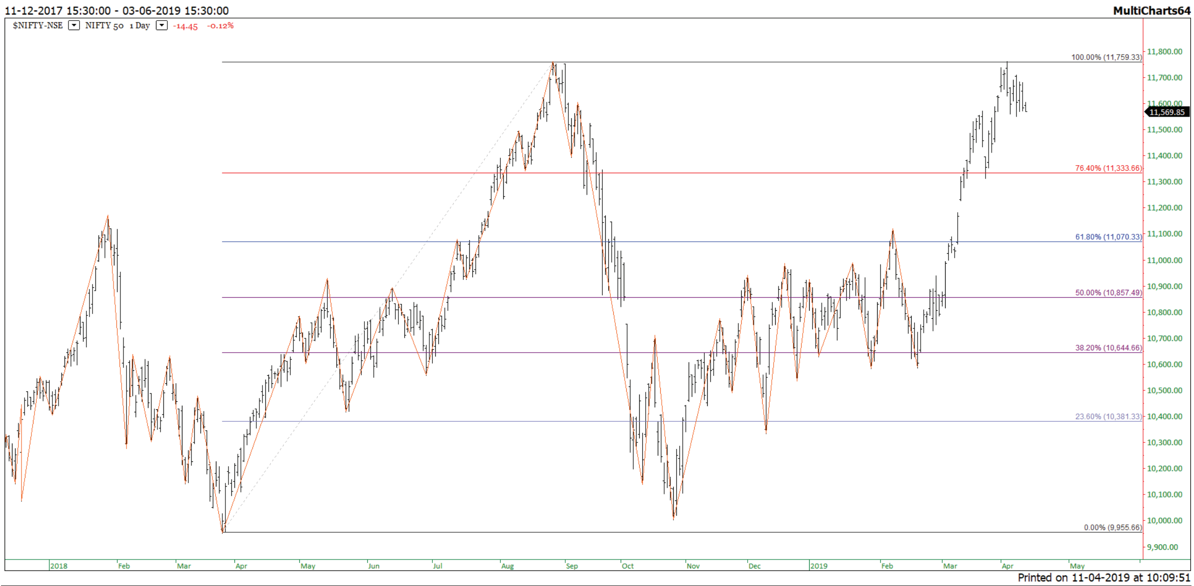
EQUITY UPDATE

Equity markets saw a sharp comeback in March, since the sentiments were positive from the opinion polls indicating a favourable position for incumbent government and de-escalation of geo-political tensions with neighbouring country and improved optimism over US-China trade negotiations. Indian equity markets which opened the year on low note as compared to other emerging markets, caught up with the rally in March. Developed market indices also continued with the upward move, with S&P 500 index moving up by 1.8%; Euro Stoxx 50 by 1.6%; and MSCI emerging market index by 0.7% during the month.

Inflow in equity and ELSS schemes doubled during the month to Rs.11,756 crore against Rs.5,122 crore in February. Retail AUM under equity, ELSS and Balanced funds moved up to Rs.10.73 lakh crore compared to Rs.10.01 lakh crore in February. Inflows through SIP fell marginally by 0.5% to Rs.8055 crore compared with Rs.8094 crore in Feb-2019. For the full year 2018-2019, SIP cumulative collection was at Rs.92,693 crore vis-a-vis Rs.67,190 crore for 2017-2018, up by 38%.

Similarly Income funds which saw a huge outflow post the NBFC crisis, saw a net inflows of Rs.13,856 crore in March.

Nifty - Daily Chart



Outlook

In short term Nifty was in uptrend from 10600 levels and facing a stiff resistance at all time high levels of 11,750 levels. Due to political uncertainty, we expect in coming month Nifty will be consolidate in the range of 11,300 - 11,800 levels. If Nifty will break 11,800 levels it will trigger a short term uptrend.

Trading range for the month: 11300 - 11800

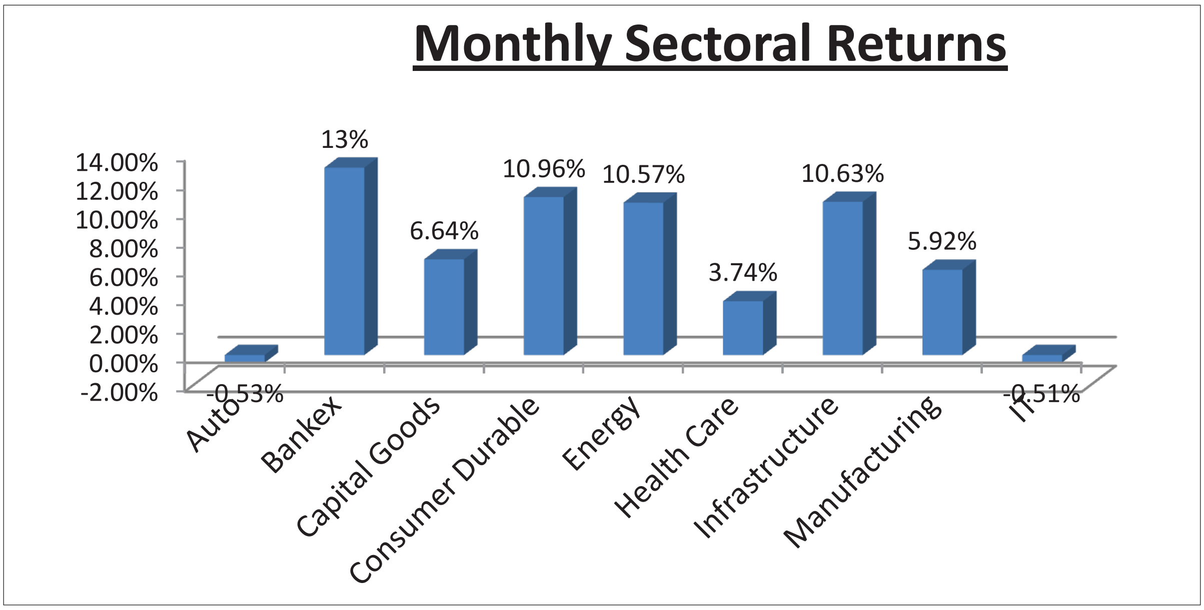
Short term Support: 11300 and 10900

Short term Resistance: 11800 and 12100

Mutual fund flows:

Month	Equity (cr.)	ELSS (cr.)	Balanced (cr.)	Total (cr.)
Mar '19	9014	2742	-3181	8575
Feb '19	3948	1174	-1077	4045
Jan '19	4914	1244	-952	5206
Dec '18	5765	841	45	6651
Nov '18	7579	835	215	8629
Oct '18	11422	1200	519	13141
Sep '18	10237	935	731	11903

Among the sectors, Bankex, Consumer durable, Energy and infrastructure are major gainers, while Auto and IT sectors closed neutral.



Sector Name	Returns
Auto	-0.53%
Bankex	13%
Capital Goods	6.64%
Consumer Durable	10.96%
Energy	10.57%
Health Care	3.74%
Infrastructure	10.63%
Manufacturing	5.92%
IT	-0.51%

FII's were net buyers in equities for Rs.6.1 bn and DIIs sold equities worth USD 2 bn during March-2019. So far in the calendar year 2019, FIIs bought equities worth USD 8.4 bn. GST collections for March stood at record high of INR 1.06t and monthly average in FY19 stood at INR 981b (+9.2% YoY).

Banks credit growth sustained momentum with 13.2% YoY growth. NHB proposed tightening borrowing norms for housing finance companies. Auto sector continued its subdued performance implying demand slowdown in the economy. Trade deficit in Feb-2019 was USD 9.6b v/s USD 14.7b in jan-2018.

Outlook

We expect first half of FY 2019-20, to remain on a subdued note, given broad based slowdown in the economy, election period hovering and no major policy announcements. Steps taken by RBI may take time to percolate in the economy and stimulate demand. However we expect 2HFY20 to be significantly different from H1 and growth could overshoot expectations led by policy initiatives of new government, moderate inflation scenario and favourable base.

Indian Corporate earnings were elusive v/s expectations for the last few years, confidence level in FY20 earnings growth remains high driven by banks, where credit cost will drop significantly given higher provision coverage on the books and lower incremental NPAs.

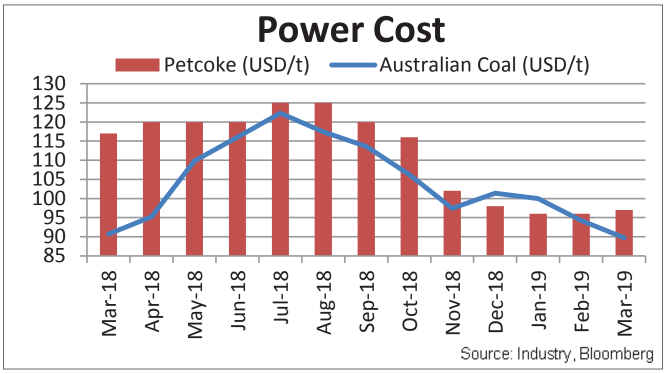
In large caps we suggest sectors like banks, pharma, IT services, metals & mining and oil & gas. Among mid caps we suggest select stocks from sectors like capital goods, construction and auto ancillaries.

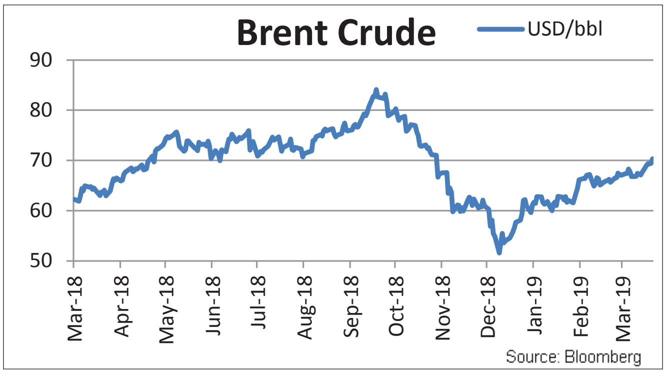
We suggest investing in equities through SIP or STP route for long term in a disciplined manner based on the individual's asset allocation and risk profile.

Sector Update – Cement

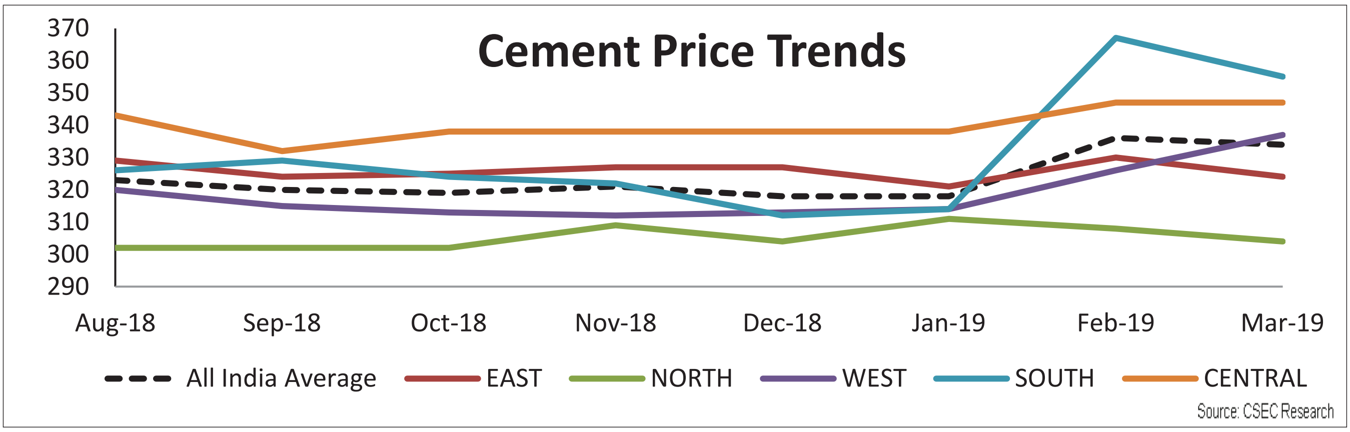
The first half of 2018, was what could be called a sub-standard period for cement manufacturing companies with the sand availability issues, rising freight and power & fuel costs coupled with lack of pricing environment made the cement producers' situation miserable. Albeit volume growth was never an issue, as there was sustained demand from government led infrastructural and housing projects. Cement production continued to post a strong growth in Jan'19 at 11% YoY, on the back of increased demand from infrastructure segment. High sales from the non-trade segment, which results in lower realization, had ensured that cement prices remain benign.

However in 3QFY19, as crude prices started easing, costs for cement producing companies moderated from their peak, effects of which will be seen in the subsequent quarters due to large inventory held. Appreciating INR vs USD further provide cushioning to their margins. In addition to the reduction in cost pressure, there were substantial price hikes seen in 4QFY19 as pricing discipline returned in the industry, with companies being content with volume growth. This is further expected to aid profitability in the near term.





Cement prices rose (+6% MoM) across all regions except North, owing to pricing discipline amongst the players. Major hikes were seen in Feb'19, especially in the Southern region (+17% MoM) followed by Western region (+4% MoM), Eastern region (+3% MoM) and lastly Central (+2% MoM). Northern region remain an outlier where prices fell 1% MoM in Feb'19 as the price hike in Jan'19 was not absorbed by the market. A partial rollback was seen at the end of March on account of year-end volume push, post which All-India cement prices were stable at an average of INR334 (-1% MoM). Price reduction in North (-2% MoM), South (-3% MoM) and East (-2% MoM) was offset to a certain extent by higher prices in the West (+4% MoM), whereas they remained flat in the Central region. Despite witnessing a decline in Mar'19, cement prices were higher ~5% vs Jan'19. Another price hike was announced across major regions: South (6% MoM), West (3% MoM), East (7%-9% MoM) and North (7%-9% MoM) in the first week of Apr'19.



However given the slowdown in uptick of Infra projects, sustainability of the recent hikes remain a major question, which will be answered post the Lok Sabha elections once construction activity shapes up on policies passed by the new government.

LEARN A TERM

What is an REIT?

A Real Estate Investment Trust (REIT) is a company (business trust) that owns, operates or finances income-producing real estate. REITs can be viewed as a closed-end mutual fund, wherein, investors subscribe to units of a pool of funds, which is then used to purchase properties. In India, REITs are only allowed for holding commercial properties and not less than 80% of the funds should be invested in fully constructed properties and REITs are required to be listed on any of the exchanges.

Why invest in REIT?

Real estate as an asset class created wealth but it has its own complexities in terms of higher ticket sizes, liquidity issues, transparency and maintenance, amongst others. Compared to the residential market which has been in a tough phase in the last four years, commercial real estate offers better appreciation and rental yields (According to ANAROCK's report, Commercial Real estate in India has fetched returns of ~14% CAGR over the past 5 years). But investment in commercial real estate requires huge capital outlay, sufficient market knowledge and longer holding capacity, making it an unviable proposition for retail investors.

Subscribing to units of an REIT thus help retail investors, get a share of the pie with lower capital outlay, liquidity (more liquid in comparison to real estate), professional management and transparency.

Investment in REITs fetches two kinds of returns; one is in the form of rental income on the portfolio, the net proceeds (net of expenses incurred) of which have to be distributed to the unit holders on a quarterly basis (SEBI mandates distribution of at least 90%). And the second is the capital appreciation (calculated half yearly) of the property portfolio, which gets added to the NAV value.

Taxation aspects (for unit holders)

Income distributed	Resident Unit holders	Non Resident unit holders
In the nature of rental income	Taxable as Income from house Property. (TDS @10%)	Taxable at rates applicable to NRI
In the form of interest	Taxable at slab rate. (TDS @10%)	taxable at 5%
In the form of dividend	Exempt	Exempt
Any other income	Exempt	Exempt
On sale - Capital gains		
held for less than 36 months (STCG)	Taxable at 15%	Taxable at 15%
held for at least 36 months (LTCG)	Exempt up to INR 1 lakh beyond which it is taxable at 10%	Exempt up to INR 1 lakh beyond which it is taxable at 10%

Risks

Income earned by REITs on their underlying investments (properties, securities, etc) have to be distributed in the same form as earned (rent, interest and dividend) and hence its makes REIT less tax friendly.

Real estate is still a considerably unregulated sector in India. Also, other parameters on assessing an instrument, viz. liquidity and downside to returns can only be judged by experience and track record, which is lacking in India, given Embassy Office Parks REIT is the first of its kind in the country.

COVER STORY

Planning for Tax savings

Our procrastinating mind will often hold off on boring tasks like tax planning to the very fag end and we end up doing mindless investing just to save up on taxes. Prudent tax planning is a time taking activity that involves a lot of research and hence should be done right from the beginning of the year, i.e., from the month of April. And for this exact reason, we've chosen to discuss about tax planning in this edition. After all, the early bird has more opportunities to catch all the worms.

Here we suggest a few tax savings instruments, which should help you in making smart decisions in tax savings.

To start with, most of us might be aware that new tax slabs will be applicable from this financial year. So we have worked out a simple illustration to show how new tax slab will be applicable for different income tax slabs.

	Rs.	Rs.	Rs.
Annual Income	15,00,000	10,00,000	6,50,000
Standard Deduction	50,000	50,000	50,000
Income After Standard Deduction	14,50,000	9,50,000	6,00,000
Deduction Under Sec 80c	1,50,000	1,50,000	1,50,000
Deduction Under Sec 80D	25,000	25,000	25,000
Taxable Income	12,75,000	7,75,000	4,25,000

		Tax Payable on Taxable Income		
Tax Slab	**Applicable Tax Rate**	**12,75,000**	**7,75,000**	**4,25,000**
Up to 2.5 lakh	Nil	0	0	0
From 2.5 lakh to 5 lakh (a)	5%	12500	12500	8750
From 5 lakh to 10 lakhs (b)	20%	1,00,000	55,000	0
Above 10 lakhs (c)	30%	82500	0	0
Total Tax (a+b+c)		1,95,000	67,500	8750
Rebate Under Sec 87A		N/A	N/A	-8750
Net Tax(d)		1,95,000	67,500	0
Edu. & Health Cess (e)	(4% of d)	7800	2700	0
Total Tax Payable (d+e)		2,02,800	70,200	0

Choosing the right option

If you were to forget about tax saving and just choose an investment plan for savings, then the first thing that we look in to is what is the return I will make; liquidity; etc. So the same applies when we choose our tax saving investments also. In fact the planning should be aligned to our investment goals, portfolio asset allocation mix etc.

The general options available are insurance, ELSS, NPS, Tax saving deposits, Senior citizens savings scheme, National Savings certificate (NSC), Sukanya Samriddhi Yojana, etc.

From the above, we have analyzed few investment options with their pros and cons of investment.

Market Linked Products

If you were to compare 80c investment options on returns, market linked products such as ELSS and NPS offer best return in this category. Since these investment have the equity proportion, can boost your returns over a period of time. Many investors usually prefer assured return options like PPF or EPF which offers 8% plus tax free returns, but one should not forget these products are also on floating rate regime since the interest rates are declared every quarter on prevailing yields in government securities. Similar is the case for EPF also where the rate is decided based on the surplus of income over expenses that the EPFO calculates for the year.

Equity Linked Savings Scheme (ELSS)

These are specially notified tax saving schemes from mutual funds which will carry three years lock-in. The investment style will be like a multicap fund and offers a good choice for the investor’s core portfolio. In terms of lock-in they carry the short lock in period for 3 years, and the returns will depend on the stock market performance during the holding period. We suggest investing through SIP basis rather dumping the entire investment during Feb or Mar months. This will help you to average out the cost for the entire period and the lock in period of 3 years will be applicable for every installment.

Employees Provident Fund (EPF)

For salaried, every month 12% of your basic pay plus DA (Dearness allowance) is deducted as EPF contribution. You also have a provision to step up this contribution to 100% of your basic pay. Advantage of EPF is the maturity proceeds are completely tax free. As mentioned earlier the interest rates are decided every year based on surplus.

Public Provident Fund (PPF)

One of the old and traditional tax saving option, offered by post office and banks. This is considered as a safe investment option available for both salaried and self-employed. Interest rates are decided every quarter and the latest rate for Jan-Mar-2019 is 8%. The drawback of this product is that the returns are variable and has long lock period of 15 years.

National Pension System (NPS)

NPS is a market linked scheme regulated by PFRDA. You have the option to choose your pension fund manager and also set the asset allocation in to equities, corporate bonds and government securities. This investment has an additional benefit of 50,000 under sec 80CCD, apart from the 1.5 lakhs under sec 80c. This is the only market linked product with lowest management fee of 0.1%.

With the new changes amended, from the final proceeds, one can withdraw 60% as lumpsum and balance 40% compulsorily as annuity.

The negative about this product is compulsory annuity option for the 40% corpus, which will add to your taxable income.

Conclusion

From the above discussion, we suggest that your tax planning should be aligned to your goals and to choose a fixed or market linked investment will depend on your risk profile, asset allocation mix etc. As far as insurance is concerned, we recommend term plan as risk covering measure and one can choose ULIP scheme only if he has long term investment horizon.

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