
Investment Opportunities in India for NRIs



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Global Crisis – Modest Beginnings

- Feb 2007 – Sub prime Crisis erupted, initially impact was considered limited
- The Dow Jones IA keeps touching lifetime highs amongst talks of *soft-landing* of the US economy
- Sep 2007 – Fed Starts cutting rates

Global Crisis – the contagion spreads

- **Jan 2008** – First signs of panic though mild
- **Mar 2008** – Bear Sterns, first casualty passes rather peacefully due to Fed bailout
- **Apr 2008** – Inflation Starts rising globally on the back of unprecedented Oil Gains.
Goldman Sachs predicts Oil @ USD 200 to a barrel

Global Crisis – it gets bigger

- **Sep 2008** – Lehman Collapse, AIG Bailout. Contagion spreads to Europe. Panic spreads across the world.
- **Oct 2008** – Investors pull out from across the world and across asset classes, commodities go in a free fall.

Global Crisis – Current Scenario

- No place to hide, everything is considered risky including banks causing bad situation to turn worse.
- Coordinated central bank action does not seem to help.
- Oil retracing fast despite OPEC production cuts
- All asset classes are falling including Gold
- General sense of fear and despair

How India Fares?

Not bad actually

India – Negatives First

- No **Sub-prime** but still quite a few concerns
- Foreign Institutional Investors pull out close to USD 15 billion YTD from the stock markets
- Growth rate projections falling in light of global recession. GDP growth being scaled back to 6%-7% from 9% levels last year.
- Some analysts talking still lower numbers and that too not just for this year but for the next year as well

India – Spillover effect

- Retail consumers are worried as they want to preserve cash in expectation of long recessionary period
- Global liquidity crunch has led to lack of funding options for companies which are having to hold expansion
- No bankruptcies in India
- No trading halts

However do not ignore the positives

- India's Exports to GDP ratio is 15%. Less than most other emerging markets
- Domestic consumption continues despite the general lack of 'feel good' factor, however Value for Money being sought
- Savings rate at 34% of GDP is amongst the highest and thus capital formation continues
- Money still flowing into banks. Cumulative deposits continue to grow

Positives...contd

- A large population is still employed with the Government and thus immune from slowdown.
- Most consumption is on basic necessities and non-conspicuous and thus unlikely to taper off.
- Infrastructure spend has to continue irrespective of who leads the new government. This will provide required fiscal stimulus to the economy.

Fact sheet - Indian Banks

- **CRR** – Bank's Balance with RBI – 5.5%
- **SLR** – Bank's investment in Sovereign Bonds @ 24%.
- Capital Adequacy Ratio (meaning Owner's Capital) @ 12% + for the industry as a whole.
- Thus in a way a substantial portion of the balance sheet is protected by near cash + owner's capital.
- Retail leverage is much lower @ 8% of GDP in comparison to other emerging economies.

Forex Reserves Trend

- **Forex Reserves** though down from US\$ 310 billion levels are still comfortable at **US\$ 250** billion, one of the highest in the world.

Emerging Positives

- **Declining Inflation** – On the back of lower Oil & Commodity Prices Inflation has come down from a peak of 12% + to sub 9% and is expected to ease to 4%-5% by Mar09.
- **Lower Interest rates** – As a result central bank is cutting rates and once they are passed on to corporates, their profits will increase due to lower interest burden.

Emerging Positives

- **Oil** - the biggest worry for the country both on the Macro as well as Micro front. Prices have more than halved from their peak, saving the government lots of foreign exchange as well as subsidy burden.
- Record **Foreign Direct Investment (FDI)** Inflows @ US\$ 17billion in 1HFY09.

Domestic Factors

- A latest **ML report** indicates that India would be least affected amongst large countries in the current crisis.
- **Demographic Dividend** – Proportion of working population is increasing as more young people are added to the base. This should lead to more savings, investments and consumption.

Playing Devil's Advocate

- Growth Rate will slow down to 5% - It would still be better than recession in other countries.
- **FII**s will not put in money any more as their own house is on fire - In my view money is a commodity, it automatically flows to the place where it finds better opportunities. Also @ 4%-5% total, domestic investor is underweight equity. Domestic could be much bigger than FII.s.

Investment Options - Equity

Equity Mutual Funds

- Could form the Core 'RISK' portfolio for any investor.
- Earnings Yield (EPS/Price) today is higher than return on debt (1 Year Govt Paper).
- Tax efficient - Dividends are tax-free and Long Term Capital Gains is tax-exempt.
- Highly Liquid – Redemption in 3 business days.

Investment Options - Debt

Fixed Maturity Plans

- Similar to a **Term deposit** as it has a fixed tenure and an indicative return.
- Prevailing indicative Returns are in the range of **9.5% pre-tax** for 1 year.
- Tax-efficient as it is treated as a **capital asset**
 - thus a 12 months FMP investing only in Public Sector Banks which has a indicative yield of 9.50% Pre-tax would yield 8.32% Post-tax

Gilt Funds

- Invest in **Sovereign Debt** and thus carry ZERO Credit Risk.
- Interest Rate Risk could work to investor's advantage. As rates cut happen in the economy, people who are locked in at higher rates would benefit.

NRI's – Have your cake & eat it too

- Prevailing exchange rate - 1 USD = INR 49.30
- Most Research reports indicate that USD should start depreciating once the panic eases.
- You could gain from your investments as well as make exchange gains. E.g., you bring in money @ 50, but withdraw @ 40. You get 1.25 dollars for every 1 dollar that you invested.

Role of UpMarket

- Identification of the right investment option and the right mix for you
- Maintaining & tracking of your **portfolio** and providing you with regular updates on the same.
- Updates on new investment options & opportunities available depending on their suitability.
- A **relationship** for a lifetime.

In Conclusion

- You need to invest
 - As fundamentals are in place
 - Short Term concerns will fade away unless the world's financial system collapses in which case money anywhere is not safe
 - **Asset Allocation** is the key
 - Variety of investment instruments to meet diverse investment objectives

Someone said

Most of the time common stocks are subject to irrational and excessive price fluctuations in both directions as the consequence of the ingrained tendency of most people to speculate or gamble... to give way to hope, fear and greed.

...Benjamin Graham

Next Steps:- Call us

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