RNI No. MAHENG/2009/28962 | Volume 14 Issue 11 | 16th - 30th Nov '22
Mumbai | Pages 44 | For Private Circulation

Beyond Market

it's simplified...

NIRMAL BANG
a relationship beyond broking

a financial magazine crossing horizons

WEIGHED DOWN BY WOES

Heightened recessionary fears continue to weigh heavily on nations around the world, including India

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Volume 14 | Issue: 11, 16th - 30th Nov '22

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Printed and published by Mr Rakesh Bhandari on behalf of Nirmal Bang Financial Services Pvt Ltd, printed at Uchitha Graphic Printers Pvt Ltd 65, Ideal Ind. Estate, Senapati Bapat Marg, Lower Parel, Mumbai – 400013 and published at Nirmal Bang Financial Services Pvt Ltd, 601/6th Floor, Khandelwal House, Poddar Road, Malad (E) Mumbai - 400097. Editor: Tushita Nigam

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CONTENTS

Tough Times?

Tushita Nigam
Editor

Global economies continue to be weighed down by inflation. India is no exception. Although India is better placed than its peers, the government is fighting hard to rein in inflation while maintaining growth.

Read the cover story in this issue to know where India stands at this moment as regards economic growth amid recessionary worries, and other concerns including high commodity prices, a weak rupee and geopolitical uncertainties emanating from the ongoing war between Russia and Ukraine.

From the impact of reduction in subsidies on fertilizers and the introduction of reforms in the sector to the government's crackdown on Big Tech companies to disallow a monopolistic environment, a range of topics have been covered in this issue.

In the following pages, you will find other thought-provoking articles on the hike in ethanol prices and its impact on the sugar sector, the massive job cuts in several tech companies and start-ups owing to recessionary concerns, and the reforms in the Indian logistics industry with the introduction of the National Logistics Policy.

In the Beyond Basics section you will find two gripping articles. While one article talks about steps to follow to revive a lapsed insurance policy, the other on target maturity funds tells how these funds can be beneficial to mutual fund investors.

Do not miss an interesting article in the Beyond Learning section. It explains how investors can wade through troubled waters in an inflationary environment by cutting back on expenses and saving more through diligence and patiencE.

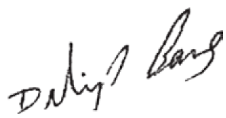
“In the coming fortnight, Nifty Futures is likely to gradually move towards the 19,450 level.”

China is grappling with a fresh wave of coronavirus cases, forcing the government to impose harsh lockdowns to prevent the spread of the virus. However, China’s zero-Covid policy, which are aimed at eliminating infections through lockdowns, quarantines and mass testing, have prompted protests, and is fuelling demand concerns for commodities.

There are growing expectations of slower increase in interest rates by the US Federal Reserve as well as the Reserve Bank of India at the policy meets to be held in the month of December.

In the coming fortnight, Nifty Futures has support at the 18,500 level. Gradually it is likely to move towards the 19,450 level.

Market participants are advised to watch out for inflation data, which is likely to cool off due to the decrease in coal and oil prices. Also, they should keep an eye on RBI and Fed action to see if these institutions will slow the pace of interest rates or no**T.**



Sensex: 62,504.80
Nifty: 18,562.75
(As on 28th November ’22)

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WEIGHED DOWN BY WOES

Heightened recessionary fears continue to weigh heavily on nations around the world, including India

The world has been through turbulent times since end-2019 and three years hence, as 2022 draws to a close, there seems to be no end to the upheaval.

The global economy is in poor health and there is a danger of recession gripping some countries, including the so-called developed ones such as the United States, the United Kingdom, China and several European countries.

Coronavirus has not yet been fully vanquished though it has been controlled substantially with India especially doing a wonderful job of vaccinating its huge population.

The way India handled the covid-19 pandemic has come in for praise from several quarters and indeed, the Indian government has done a much better job of controlling the pandemic than even some of the so called developed countries.

Just when the world began to breathe a little easier in the hope that the pandemic had been controlled and normalcy would return along with the global economy perking up once again, an unexpected development in the form of the European war - the Russia-Ukraine war - began early this year and is still continuing.

This once again put the world economy in jeopardy with global supply routes getting affected and oil and commodities' prices flaring up, resulting in inflation in many countries.

India too has been affected, first by the pandemic and now by the European war with inflation moving northward and economic growth stifling.

However, given the economy's strong fundamentals, coupled with some adroit handling by the Narendra Modi-led central government, the country has managed to put behind it the worst effects of both, though its economy is still to pick-up steam.

The aftereffects of the shocks, however, are still being felt in India just like in several other countries globally and will continue to linger on for some more time.

Inflation has been rising in the last few months and the Reserve Bank of India (RBI), the country's central bank, has been forced to up the repo rate in a bid to rein in inflation. Repo rate is the interest rate at which the central bank of a country lends money to commercial banks.

The repo rate presently stands at 5.90%. Here, it must be pointed out that with inflation on the rise in the last few months, the Reserve Bank has hiked the repo rate by a cumulative 190 basis points (bps) or 1.90% since May this year.

Despite domestic inflation being on the higher side and economic growth slow, it is not all depressing news, however, as far as the Indian economy is concerned.

Inflation has moved southward in October though it is still above the RBI's upper margin of 6%. Importantly, this is the tenth consecutive time that retail inflation is above the Reserve Bank's upper margin of 6%.

The RBI's tolerance level is between 2% and 6%. The central government has mandated the RBI to maintain retail inflation at 4% with a margin of 2% on either side. And the apex bank's tolerance level is between 2% and 6%.

Retail inflation, however, declined to a three-month low of 6.77% in October from 7.41% in September. It is measured by the Consumer Price Index (CPI) and factored in by the Reserve Bank while deciding its monetary policy. Last October (2021), the retail inflation number was 4.48%.

India's Wholesale Price-based Inflation (WPI) also slid to 8.39% on-year in October. This slide was because of the decline in commodity prices while in the case of retail inflation, overall food inflation, which comprises nearly half of the CPI basket, reduced to 7.01% in October from 8.60% in September.

The decline in inflation is heartening but it must be highlighted here that upward pressures still exist. The Russia-Ukraine war will continue to impact oil and commodities' prices and any flare up in them will push up the already high inflation to an even higher level.

Two new global hotspots have emerged in recent months, which, if the situation deteriorates, could result in global economic devastation.

These are Iran and Korea - if military action occurs in these regions, supply routes in both the east and west could get disrupted, pushing up prices of not just oil but several other products as well.

In India, high commodity prices and a weaker rupee, down around 9% for the year are also adding to inflationary pressures.

The RBI could hike the repo rate by up to 50 bps going forward to counter inflation; this will, however, not please the proponents of economic growth who will clamour for a reduction in interest rates.

India's GDP growth for this fiscal (FY23) could be adversely impacted by high inflation, geopolitical uncertainties and rise in imports; a 7% growth rate considered achievable till about a few months ago now appears difficult.

A Deloitte India report pegs India's GDP growth for FY23 between 6.5% and 7.1%. The spectre of recession in some advanced economies including China and the US could further muddy the waters.

Deloitte said that it expects "India to post a 6.5% to 7.1% growth during FY22-23 and a 5.5% to 6.1% growth the following year contingent on the revival of the global economy and improving economic fundamentals."

While geopolitical uncertainties will continue to haunt the global economy for some more time, India's strong economic fundamentals will certainly help it overcome some roadblocks and move forward, albeit slowly.

A pleasant surprise has come in in the form of a 3.1% growth in India's Index of Industrial Production (IIP) in September as against a contraction of 0.8% in August.

Much of the industrial growth was driven by electricity and mining sectors in September with the former climbing a healthy 11.6% on a year-on-year (y-o-y) basis in September as against 1.4% in August while mining output rose by 4.6% following a contraction of 3.9% in August.

The crucial manufacturing sector, however, increased marginally by 1.8%; it had slid by 0.5% in the previous month.

A point to be highlighted here is that the production of both consumer durables and non-durables reduced - in August, the former fell by 2.5% while in September, it worsened to 4.5%.

The production of non-durable goods declined by 7.1% in September as against 9.5% in the previous month. However, in four other categories, production increased at a faster rate in September with capital goods clocking 10.3%, which is encouraging to say the least.

One point that needs emphasizing here is that domestic consumption must register an increase as this will play a critical role in spurring growth. Inflation is expected to cool down going forward and this too could help push domestic consumption upwards.

The ongoing festival season has seen the retail sector fare well with Christmas / New Year still ahead of us. This sector is expected to perform healthily, meaning that there could be an uptick in domestic consumption.

And if this happens, it will have a positive impact on the domestic economy. The festival season will last till Holi in March.

Another indication of the Indian economy's resilience is the healthy monthly Goods and Services Tax (GST) collections over the last few months.

In October, the gross GST collection rose to ₹1,51,718 crore, the second highest mop up since the roll out of GST regime in July '17. The highest collection was in April this year at ₹1,67,540 crore.

What needs highlighting here is that the monthly GST revenue has been northwards of the ₹1.4 lakh crore-mark for the last eight months consecutively.

And this is another positive reflection on India's economy. A finance ministry statement said that "this is the ninth month and for eight months in a row now that monthly GST revenues have been more than the ₹1.4 lakh crore-mark."

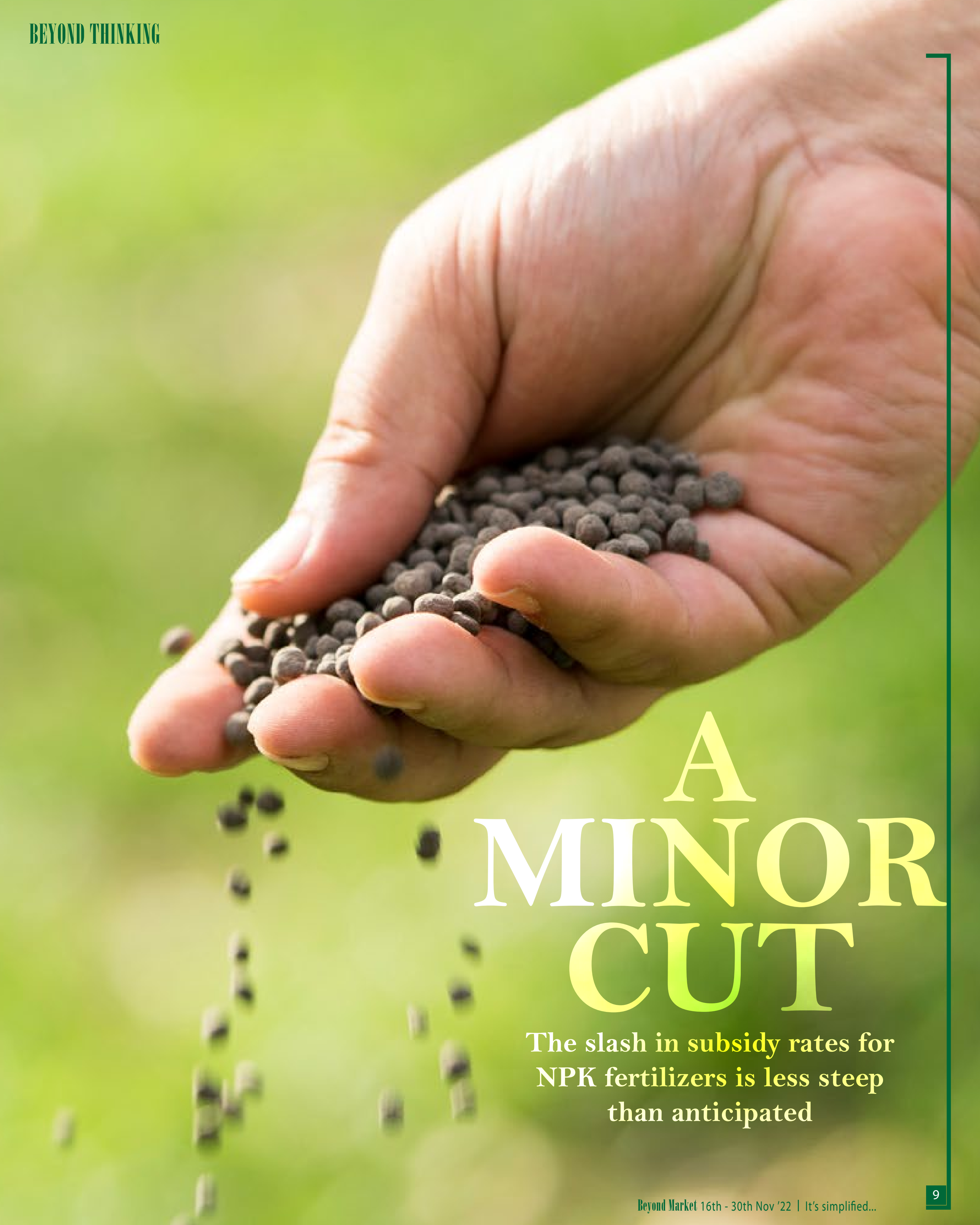
Another significant highlight is that at least 12 states / UTs have recorded a more than 20% growth in GST collections in their regions. Financial experts aver that with the festival season continuing, GST collections should be healthy.

Additionally, compliance levels have increased considerably in recent times and the GST regime has been effectively streamlined. All these initiatives have contributed to higher monthly GST mop ups in recent months.

To sum up the prospects for this fiscal, there is a need to be watchful and be ready for quick action when needed but there is no need to be unduly alarmed with the state of our economy.

The government has handled things satisfactorily so far and while there are headwinds and roadblocks to overcome, India's economy is resilient enough to withstand these shocks and move forward.

The GDP growth could be below 7% this fiscal. But given the prevailing global environment, including the uncertain geopolitical situation, any growth number close to 7% should be considered healthy indee**D.**



A MINOR CUT

The slash in subsidy rates for NPK fertilizers is less steep than anticipated

For the rabi season (winter sowing), the government has reduced subsidies for non-urea fertilizers. The move will enable smoother availability of all non-urea fertilizers to farmers during the sowing season at affordable prices, thus supporting the agriculture sector.

The move will also involve a financial outgo to the tune of ₹51,875 crore for the government in the form of a subsidy for the October-March period of 2022-23.

Given the fall in prices of international fertilizers and raw materials in recent weeks, the industry was expecting steeper cuts in subsidies.

Following the lower-than-expected reduction in subsidy, fertilizer companies will now be able to enjoy higher margins. Some companies have also signalled reducing their maximum retail prices (MRP) of fertilizers to aid farmers.

For beginners, the cost of fertilizer production or import is typically higher than what farmers can afford. Thus, the government regulates the fertilizer sector and provides subsidies to make up for the loss suffered by the manufacturer or the importer.

In the last two years - amid supply chain issues, breakout of the virus, the spike in raw material prices, the Russia-Ukraine war, and weather challenges - the government has showcased a farmer-friendly approach by ensuring that retail prices of fertilizers remain affordable. But in the process, the government had to bear a higher fertilizer subsidy bill.

SUBSIDY CUT

Under its subsidy regime, the government makes subsidies available to urea and around 25 grades of phosphorus and potassic (P&K) fertilizers to farmers at subsidized prices through fertilizer manufacturers / importers.

For urea, the government fixes the retail selling price; it has been fixed at ₹5,360/tonne tonne. The retail price of urea has remained stable for the last decade. For non-urea fertilizers, the government follows a Nutrient Based Subsidy (NBS) policy designed in 2010 and fixes subsidies for each component such as N, P, K and S every April and October.

Currently, for the rabi season, the price for Nitrogen has been fixed at ₹98.02/kg (from ₹91.96/kg in kharif 2022), Phosphorous at ₹66.93/kg (from ₹72.74/kg), Potash at 23.65/kg (from ₹25.31/kg) and Sulphur at ₹6.12/kg (from ₹6.94/kg).

For the ongoing fiscal year, the government allocated ₹1,052 billion for fertilizer subsidy in the Union Budget. However, the government increased the outlay by ₹1,100 billion in May '22, taking the overall allocation to ₹2,150 billion for the fiscal.

For FY20-21 and FY21-22, fertilizer subsidies stood at ₹1,385 billion and ₹1,490 respectively. To put things in perspective, the government's fertilizer subsidy budget ranged between ₹700 billion and ₹800 billion per annum from FY16-17 to FY19-20.

Now, given elevated ammonia and gas prices, fertilizer subsidy for FY22-23 is expected to be around ₹2,503 billion.

RAW MATERIALS

Natural gas, naphtha, phosphoric acid, and rock phosphate, ammonia, sulphur, and sulfuric acid are primary feedstocks being used in the fertilizer sector. The Indian fertilizer industry is highly vulnerable to fluctuations in international prices of these key raw materials.

The current softening of input prices and prices of finished fertilizers is a positive for the government as subsidy outgo will now be lower. Barring ammonia, other inputs for fertilizer production have fallen significantly as compared to the first half of the financial year (April to September).

COMPANIES' REACTION

From the perspective of companies, although the subsidy has been reduced, a fall in international prices of raw materials from their peaks will offset lower subsidy support. For the time being, fertilizer companies still hold high-cost inventory as they already have purchased raw materials when prices were ruling higher.

It is expected that the industry will first exhaust this high-cost inventory before thinking of reducing retail prices of fertilizers to help farmers.

THINGS TO WATCH OUT FOR

Global prices are correcting at a faster rate than anticipated. It remains to be seen if the government, even during rabi sowing, will come out with any more revisions in subsidy for non-urea fertilizers. If it does, then companies would have to rework their product pricing

Revised Subsidy Rates (₹ Per Kg)						
Nutrient	**2020-21**	**2021-2022 (Kharif)**	**2021-2022 (Rabi)**	**2022-2023 (Kharif)**	**2022-2023 (Kharif)**	**Y-o-Y %**
Nitrogen (N)	18.79	18.79	18.79	91.96	98.02	7%
Phosphorus (P)	14.89	45.32	45.32	72.74	66.93	-8%
Potassium (K)	10.12	10.12	10.12	25.31	23.65	-7%
Sulphur (S)	2.37	2.37	2.37	6.94	6.12	-12%

Source: Press Bureau Of India

strategies.

It is also worth highlighting that over the last two years, the government has been proactive in making fertilizers available to farmers at affordable prices.

It is feared that cuts in subsidies would translate into slower subsidy disbursements to fertilizer companies. This would be negative for the finances of fertilizer companies. The sector is already seeing a build-up in receivables and higher working capital requirements.

In fact, according to a survey conducted by ratings agency Crisil, subsidy receivables have more than doubled in August '22 from around ₹140 billion in March '22.

The trend in raw material prices and timely disbursement of subsidies would remain crucial for the sector in the futur**E.**

Sector Basics

Chemical fertilizers play an important role in enhancing agricultural productivity and making a country self-reliant in agricultural produce.

A fertilizer may either have a single nutrient; say only nitrogen (N) as in the case of urea or a combination of nutrients in various proportions, say DAP which contains 46% Phosphorus (P) and 18% N. Other widely used fertilizers in India are single super phosphate (SSP) containing 16% P and 11% sulphur (S) and Muriate of potash Potassium (K) (MOP), which has 60% of K.

Urea, DAP, MOP and SSP are widely used fertilizers by Indian farmers. India is the third-largest producer of urea and the second-largest consumer of fertilizers. Urea accounts for over half of overall fertilizer consumption in the country.

The total consumption of all fertilizer products in India stood at 63.94 million tonnes in FY21-22, a decline of 5.4% over FY20-21. India consumes around 35 million tonnes of urea every year, 9-10 million tonnes each of DAP and NPKS complexes, and around 4.5 million tonnes to 5 million tonnes of MOP. Roughly, 45% of fertilizer sales take place in the kharif season. Currently, there are 33 large-sized urea manufacturing units, 21 DAP and complex fertilizer units and 105 SME units for SSP production.

India is not self-sufficient in fertilizers. Around 33% and 90% of urea and phosphatic fertilizers, respectively are imported every year; all potassic fertilizers are imported. Additionally, 50% of gas is imported every year for the manufacture of fertilizers. In case of phosphatic fertilizers, India is dependent on imports for both rock phosphate and phosphoric acid.

India is heavily dependent on imported fertilizers and raw materials due to insufficient capacities. While the private sector is running more than its full capacity, the government is reviving a few urea plants in the country with the intention to be self-reliant in urea by 2025.

FORESIGHT TO REIN IN

With hefty fines, cease-and-desist orders, amendment of laws and rules and new legislation, India is cracking down heavily on Big Tech firms

Big Tech - the top four American tech companies Alphabet (Google), Amazon, Apple, and Meta (erstwhile Facebook) - which have enjoyed a tsunami of growth over the years, aided by the networking effect, are facing bad times globally.

A rout in technology stocks has blown off over trillion dollars from their market caps this year while governments and regulators globally are looking to clip their wings to stop the creation of super monopolies.

India too has joined the cohort of nations looking to restrain the growth of Big Tech. The central government has lined up several laws and is plugging loopholes in existing ones to rein in Big Tech while the regulators are chipping in too.

Even as it looks to provide a level playing field to other firms and safeguard the security interest and users, India is treading on Big Tech cautiously so as not to discourage them away from the country.

Recently, the Competition Commission of India (CCI) fined Google in two separate cases, joining global regulators, which have stamped down on Big Tech's monopolistic practices.

While one CCI fine on Google is related to its anti-competitive practices for abusive conduct in the Android mobile device ecosystem, the other is related to its anti-competitive policies around Play Store, where it enjoys a dominant position.

In the Android case, CCI imposed a fine of ₹1,338 crore and in the Play Store case, the penalty was ₹936.44 crore.

WHAT'S THE CASE AGAINST GOOGLE?

Google licences Android as well as its various applications (Play Store, Search, YouTube, Maps, Gmail, etc) to smartphone makers for pre-installation in mobile devices, through various agreements - MADA, AFA / ACC and RSA.

Under Mobile Application Distribution Agreement (MADA), OEMs are required to pre-install the entire Google Mobile Suite (GMS) covering 11 applications of Google, including Gmail, Google Maps, etc, as a bundle, and place it on the home screen of the device.

Under the Anti-fragmentation Agreement (AFA) / Android Compatibility Commitment Agreement (ACC), the OEMs, which have chosen to pre-install Google's apps on their mobile devices are restricted from manufacturing and marketing not only smart mobile devices but also any smart device on alternative versions of Android.

The CCI's orders detail how Google was able to exploit the licensing of the Android operating system to its advantage. The company ventured into agreements, which ensured that the "most prominent search entry points", such as the search app and the chrome browser, are pre-installed on Android devices. This "accorded significant competitive edge to Google's search services over its competitors", the CCI has said.

Such arrangements also allowed the company to gain an advantage over its competitors in adjacent markets - for instance, YouTube.

In the second case, CCI said Google Play Store policies mandated the exclusive use of Google Play's billing system by app developers for both receiving payments and in-app purchases. CCI found if the payment is routed through Google Play's billing system, which is used to sell digital products and content on Android apps, Google gets a commission.

For apps and in-app products sold through Google Play's billing system or an additional billing system, Google charges 15% service fees every year from developers, which goes up to 30% every year if the developer's earnings surpass $1 million. So, more the apps, the bigger the moolah for Google.

It pointed out the UPI platform was placed at a disadvantage, with technological preference being given to Google Pay.

THE IMPACT

While the over ₹2,000 crore fine is a chump change for Google, which earns billions of dollars in profit, it is the CCI's 'cease and desist' order, or the detailed dos and don'ts for the company that would hurt Google hard.

The CCI has ruled that OEMs shall

not be restrained from (a) choosing from amongst Google's proprietary applications to be pre-installed and should not be forced to pre-install a bouquet of applications, and (b) deciding the placement of pre-installed apps, on their smart devices.

Google shall not restrict uninstalling of its pre-installed apps by users. Google has also been asked to allow the users, during the initial device set-up, to choose their default search engine for all search entry points. Users should have the flexibility to easily set as well as change the default settings in their devices, in minimum steps possible, CCI ruled.

The CCI judgement's real impact may not, however, be on the monetary aspect. The cease-and-desist orders mean that it has laid out a slew of measures for Google to comply with for operating in the country.

According to analysts, the money wouldn't bother Google as much as having to give an undertaking that it would change the way it does business.

Google is fighting multiple antitrust cases globally and acknowledgement of guilt in a single region would have a cascading effect on its business.

Meanwhile, Google may receive a third blow - this time for alleged abuse of market dominance in the smart TV market, where Google Play Store comes pre-installed in TVs manufactured by companies that have entered into licensing agreements with it.

NEWS INDUSTRIES FIGHT

After Australia, Canada and France, now India is putting the final touches to a new piece of legislation that would make tech giants like Google and Facebook pay for the news content they display on their platforms.

The law would compel global tech majors to pay Indian newspapers and digital news publishers a share of the revenue they earn by using original content produced by these news outlets.

The need for the law stems from the fact that while the tech giants earn revenue from putting up news content from the media houses, they fail to share the earnings fairly. There has been a growing concern that these digital news intermediaries have opaque revenue models, heavily biased towards themselves.

SOCIAL MEDIA COMPANIES

The government has announced amendments to its information technology rules that will apply to social media companies, in a move likely to be seen as reining in Big Tech.

Under the amended rules, a government panel would be formed to hear complaints from users about content moderation decisions of social media platforms. The companies would be required to acknowledge complaints from users within 24 hours and resolve them within 15 days or 72 hours in case of an information takedown request.

In June, the government issued draft changes to the IT law that would require companies to "respect the rights accorded to the citizens under the constitution of India" and proposed setting up a government panel.

DATA COLLECTION

The Centre has started deliberations over regulating Big Tech's data collection and usage policies.

One proposal was to bring out a new Digital Markets Act to govern business practices, including data collection and use by digital economy companies, or to introduce certain guidelines in Competition Act to address the concerns and global best practices are being evaluated to arrive at a consensus.

It is looking at an 'ex-ante' approach to regulate competition in the digital market economy instead of the 'ex-post' model followed now, which will ensure that data harvested from consumers will not be used for any purpose other than serving the consumer's interest.

It will also entail defining Big Tech companies acting as 'gatekeepers,' that is, business platforms that act as a gateway for small firms to reach out to the end consumer. This will help regulate digital markets better.

HOW THE GOVERNMENT IS TRYING TO CONTROL BIG TECH

While it has set up Open Network for Digital Commerce (ONDC) to take on e-commerce monopolies, the government has lined up several legislations for a foolproof move against Big Tech.

Under the draft telecom bill, the government has proposed to bring OTT communication platforms under its ambit, subjecting them to rules similar to those governing telecom operators, including licensing.

The personal data protection bill's proposed data localization norms are guided by the desire to exercise greater control over cross-border data flows. Increasing data storage requirements and imposing strict restrictions would increase the compliance burden of Big Tech.

Provisions of the e-commerce bill seem to have been drafted to shield domestic players while handicapping foreign-owned e-commerce platforms.

Fall-back liability clauses for instance or the imposition of restrictions on flash sales are all meant to restrict the operations of foreign-owned platforms.

CONCERN REGARDING REGULATION

Tech trackers are worried the move could well lead to an era of inefficient, uncompetitive goods and services.

The regulations go against the government's stated desire to build and nurture a vibrant digital economy, say some experts, adding that continuing with this approach would be a mistake especially given India needs investment.

The move will hurt consumers at last as services may be restricted by Big Tech, following government regulations, they said.

CCI ROLE

In several instances, existing regulations have prevented the CCI from going all out against these companies for anti-competitive activities.

To address this concern and enhance the CCI's scope over digital markets, the Indian government is planning to bring changes to the existing competition regulations.

In February '20, the Ministry of Corporate Affairs published the draft Competition (Amendment) Bill, 2020, to enable the central government to provide new merger control thresholds.

The bill will likely introduce a "deal value" threshold to tackle highly valued targets in the digital sector, which may not have a significant asset base or may not generate significant turnover. The valuations of these entities come from their access to a large customer base, and data and intellectual property.

The meagre amount of penalties on Google compared to its revenues has shown that it may be time to revise the competition law itself to create a more impactful deterrent - penalties based on global rather than Indian revenueS.

TAKING SHAPE

Biofuel ethanol is shaping the future of the sugar industry, with its share in sugar mills' total revenue only going up hereupon

Recently, the government increased the procurement price of ethanol derived from different sugarcane-based raw materials for the ethanol supply year (ESY) 2022-23. The ESY runs from December to November.

The price of ethanol derived from C-heavy molasses has been increased from ₹46.66/litre to ₹49.41/litre. The price of ethanol from B-heavy molasses has been increased from ₹59.08/litre to ₹60.73/litre. The price of ethanol from the sugarcane juice/sugar/sugar syrup route was increased from ₹63.45/litre to ₹65.61/litre.

Molasses is a by-product that is generated from the process of extracting sugar from sugarcane. Depending on the content of sugar present in it, molasses is divided into different types like B and C. Ethanol is derived from molasses. Ethanol can also be directly derived from cane juice, sugar syrup or from sugar.

In a way, the price hike in ethanol was expected as the government has increased the fair & remunerative price (FRP) of sugarcane for sugar season 2022-23 (Oct-Sep) by ₹15 to ₹305/quintal as compared to sugar season 2021-22. As the FRP goes higher, mills' cost of acquisition of cane increases, needing government support. Hence, the increase in ethanol prices.

IMPORTANT PILLAR

Any large sugar company in India, typically, has three verticals: sugar refining for sugar production, distillery for ethanol production, and co-generation for generation of power. While around 80% of sugar mills' revenue comes from the sugar division, other verticals do play a role in the diversification of its revenue base.

The sugar industry has welcomed the revision of ethanol prices. Non-sugar verticals of a sugar company play a huge role when sugar prices are depressed.

Thus, remunerative prices of ethanol serve two purposes for the sugar industry:
1) stability of sugar prices in markets as mills diversify and sacrifice sugar production thereby reducing surplus, and
2) greater money liquidity in the hands of mills, which enables early payment to cane growers.

Ethanol is becoming an important business for sugar companies. What started as a modest option to diversify its revenue, has now become an important support for the sector, especially for boosting margins due to remunerative ethanol prices. Ethanol's share in sugar mills' total revenue is only going to go up in the future.

FUTURE GROWTH DRIVER

Diversification to ethanol has improved the financial position for sugar mills due to faster payments received from oil marketing companies, which buy ethanol from sugar mills for petrol blending purposes.

Ethanol also reduces the working capital requirement of mills and releases any blockage of funds tied to surplus sugar.

Ethanol is also a win-win for the economy. In the last three ESY, has saved around ₹18,000 crores in foreign currency by reducing its crude oil imports.

It helps reduce pollution from vehicular emissions when blended with petrol, directly improving the air quality.

And for India, where 85% of India's crude oil requirements are met through imports, the use of ethanol blended with petrol reduces import bills and helps save valuable foreign exchange for the country.

Over the last few years, there has been a synchronous and collaborative effort by the government and the

Ethanol Prices

(₹/Litre)	SS22-23	% Y-o-Y Change	SS21-22	% Y-o-Y Change	SS20-21
100% Sugarcane Juice/syrup/sugar	65.60	3.4%	63.45	1.3%	62.65
B-Heavy	60.73	2.8%	59.08	2.6%	57.61
C-Heavy	49.40	5.9%	46.66	2.1%	45.69

Source: Ministry Of Food & Public Distribution

Ethanol Savings	
Supply Year (1st December - 30th November)	Total Savings (₹ In Cr)
2018-19	4,145.27
2019-20	3,697.02
2020-21	10,605.98
Total	18,448.27

Source: Press Information Bureau

private sector to build an efficient ethanol ecosystem for the industry.

While the private sector has invested in building capacity to increase its distillery size, the government has come out with lucrative ethanol procurement prices (prices at which oil marketing companies buy ethanol from sugar mills) and provided soft loans to sugar mills and standalone distilleries to make investments in expanding their ethanol production capacity.

Since prices are lucrative, sugar mills have been sacrificing sugar production for the production of more ethanol.

In sugar season 2020-21, mills sacrificed 3.5 million tonnes of sugar to produce more ethanol. This is expected to reach around 5 million tonnes in the ongoing sugar season 2022-23.

During 2021-22, a revenue of about ₹18,000 crore was made by sugar mills / distilleries from the sale of ethanol.

It is estimated that in the ongoing sugar season, the diversion of sugar to ethanol would generate revenue for sugar mills amounting to about ₹25,000 crores.

SUSTAINABILITY

The ethanol vertical is likely to stay lucrative for the sector in the future too. Ethanol procurement by OMCs has increased from 38 crore litres in ESY 2013-14 to more than 452 crore litres in ESY 2021-22. From 2014 to 2021, ethanol volume has increased by 8 times.

In 2003, the government started a programme called Ethanol Blended Programme (EBP).

With reforms, the programme saw a meaningful pick-up only post-2014. From an earlier target of 5%, ethanol blending targets have been set at ambitious levels.

India reached its 10% ethanol blending target in June '22, five months ahead of schedule. Now, India has a 20% blending target, which it intends to achieve by 2025-26. Earlier this target was fixed for 2030.

For a 10% ethanol blending ratio, around 460 crore litres of ethanol were required. This includes ethanol from grains-based distilleries.

As per Niti Aayog, for a total requirement of 20% blending, a total ethanol quantity of around 1016 crore litres would be required.

According to one estimate, there is a deficit of around 650 crores of ethanol as per the current availability.

This clearly indicates the scope for sugar companies to grow their ethanol business.

IN A NUTSHELL

ESY 2022-23 is a crucial year for the sugar sector, as India is expected to achieve 12% ethanol blending across the country.

Today, ethanol from sugarcane-based feedstock is majorly produced in the states of Uttar Pradesh (30% of India's ethanol production), Maharashtra (28%) and Karnataka (17%).

Some reforms in the way ethanol is transported across the country can be expected in the near term. There is also speculation that sugar mills could be allowed to retail ethanol by putting up outlets for vehicles to fill directly like OMCs.

More and more investment is being done in augmenting ethanol capacity in the country. The sugar industry has set itself a goal of diverting 10 MT of sugar for achieving the production of 1,000 crore litres of ethanol by 2025-26.

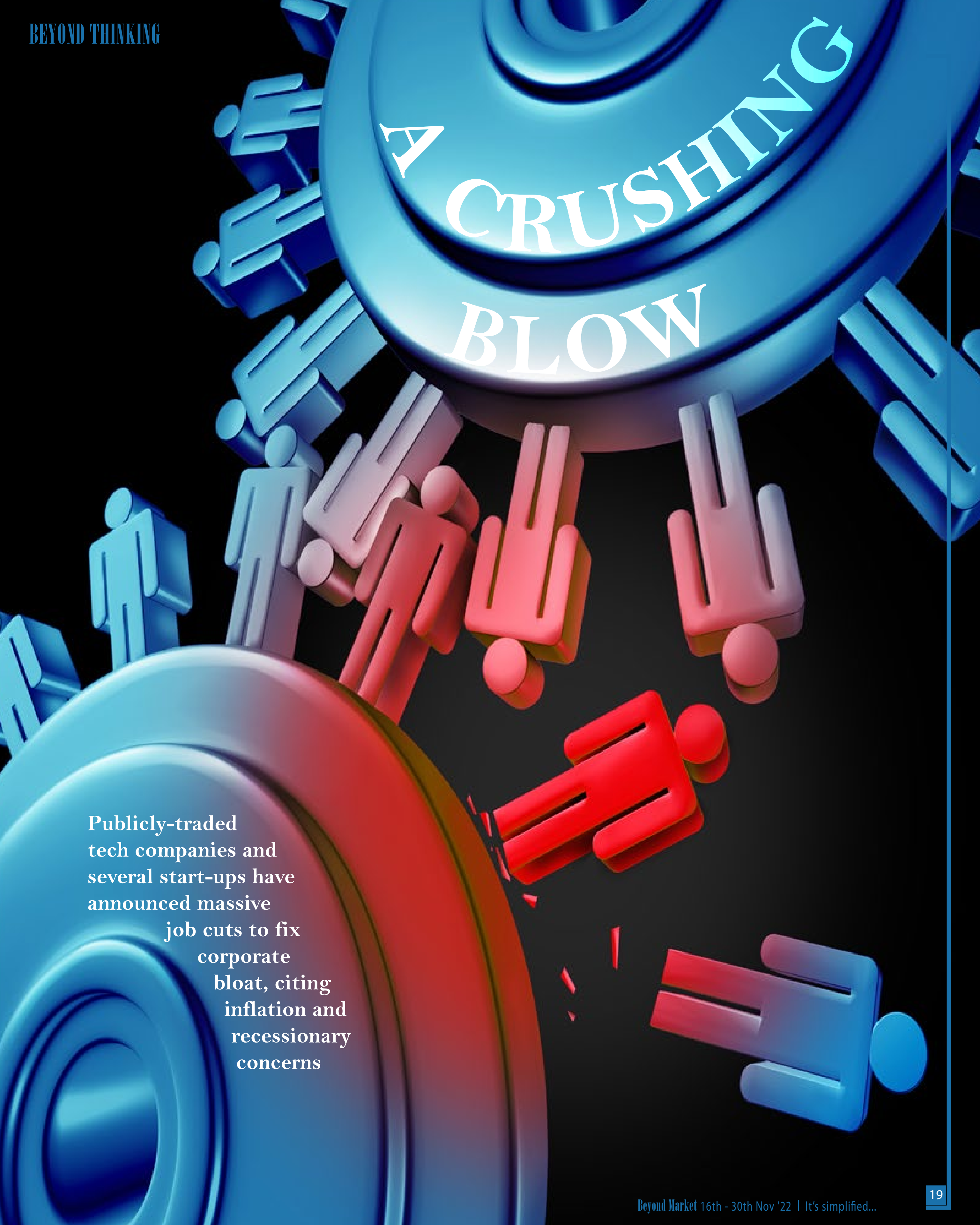
A 12% blending target for ESY 2022-23 will require around 651 crore litres of ethanol from around 450 crore litres, currently.

With the higher diversion of sugar towards ethanol production, sugar surplus in the system is likely to be contained, helping sugar prices in the commodities market.

Higher or stable sugar prices in the commodities market along with remunerative ethanol prices are positive for the sugar sector.

For the long term, a 20% ethanol blending for the medium term only seems to be the beginning, and ethanol blending is only going to increase from here onwardS.

A CRUSHING BLOW



Publicly-traded tech companies and several start-ups have announced massive job cuts to fix corporate bloat, citing inflation and recessionary concerns

Tech industry layoffs are back. It started with Elon Musk, the new owner of micro blogging site Twitter slashing his company's global workforce by half (3,800 employees), followed by Meta, the parent company of Facebook, which laid off 13% of its employees (11,000 people).

San Francisco-based Salesforce has also laid off hundreds of people, although the exact numbers are not known. The companies said that the layoffs are a result of digital advertisers cutting back on ad spending as consumers are spending less.

Other tech majors such as Amazon and Apple have announced hiring freezes.

Meta's job cuts are the first in the company's 18-year-old history.

In October this year, Meta announced a second straight quarter of declining revenue and forecast another drop in the fourth quarter. The company blamed it on a weak advertising market and rising inflation.

Apps such as Facebook are also suffering from Apple's iOS privacy update, which limits ad targeting.

Meta also faces competition from Tiktok and is under the scanner for massive spending on the metaverse. Meta's Reality Labs division has lost almost $9.4 billion this year due to metaverse.

The fall in revenue has wiped off about $67 billion or one-fourth of Meta's market cap, pushing the stock to its lowest since 2016. In a way, Meta is rightsizing after the hiring boom during the pandemic.

Meta's CEO, Mark Zuckerberg, said in a letter to employees that fired employees will receive 16 weeks of pay plus two additional weeks for every year of service.

Meta will also cover health insurance for six months. Zuckerberg blamed the global economic recession for the layoffs.

"Not only has online commerce returned to prior trends, but the macroeconomic downturn, increased competition, and ads signal loss have caused our revenue to be much lower than I'd expected," he said in a message to employees.

Zuckerberg also said that Meta will redirect its resources to "high-priority growth areas."

Twitter's massive layoffs have been making news ever since billionaire Elon Musk bought Twitter for $44 billion.

Immediately after buying Twitter, Musk announced that the company had fired 3,700 employees as the site was losing money.

Musk said the company was left with no choice as Twitter was losing $4 million every day. In the second quarter, Twitter's revenue fell by 1% from a year ago, corroborating Musk's claims.

Employees have been offered a three-month severance package to ease the pain.

In addition to full-time employees, Twitter has also sacked around 4,400 contractual workers around the world without any notice. The workers found out that they were not working for the company anymore after they lost access to Twitter's internal systems.

If Elon Musk is to be believed, Twitter is on the brink of bankruptcy. On a call to employees, Musk said that he could not rule out bankruptcy.

Twitter's abrupt layoffs have been quite difficult for Indian employees in the US on a H-1B visa because when such visa holders are fired, they have a 60-day grace period that allows them to stay in the country to find a new job.

It is usually not possible to find a job within this period. With a green card backlog of 7 lakh Indians, many of the green card aspirants are working on H1B visas. To be sure, Twitter is not the only big US company to fire employees.

In October, global computer giant Microsoft said that it would let go of about 1% of its employees, which would impact less than 1,000 people.

Microsoft saw its slowest revenue growth in over five years in its third quarter, forcing it to let go of workers.

Lyft, the ride-hailing company has cut 13% of its staff or about 700 employees. In a letter to employees, Lyft CEO Logan Green and President John Zimmer said an oncoming recession and rising rideshare insurance costs are the reason for the layoffs.

Employees will receive ten weeks of pay and workers who have been with the company for over four years will get an extra four weeks of pay.

Global streaming device, Netflix has

also announced two rounds of layoffs so far. In May this year the company cut 150 jobs after Netflix said it was losing subscribers. In June, the company fired 300 more employees.

The company said that the layoffs were meant to keep costs low in line with slower revenue growth. Netflix's stock is down by over 50% this year, reflecting the dismal growth outlook.

Earlier in July this year, global e-commerce giant Shopify laid off about 1,000 workers or about 10% of its global workforce.

The company said it was hit by the cutback in online spending. The company's stock has taken a hit, falling by almost 80% this year.

Payment processing platform Stripe recently announced that it had laid off around 14% of its staff equating to around 1,100 employees.

The cuts the company said were in response to nationwide increase in inflation, recession and less startup funding.

Tech layoffs are not limited to global tech companies. Indian unicorns such as Byju's, which is valued at $22 billion and is one of the largest ed-tech companies in the world have also announced layoffs.

Byju's fired some 2,500 employees citing job redundancy and duplication in roles.

B2B e-commerce unicorn Udaan has fired 350 employees, citing desire for profitability and efficiency as reasons.

The company said as it moved forward in its journey towards making Udaan profitable, some roles were no longer required.

Indian cryptocurrency exchange WazirX has laid off 40% of its workforce because of adverse economic conditions.

The company has laid off employees across customer support, Human Resource, public policy and communications teams.

Fired employees will receive severance pay for 45 days. The start-up was forced to let go of employees because of reduced trade volumes across crypto exchanges in India.

India's home-grown ride-hailing app Ola has laid off 200 software engineers as part of its restructuring plan to reduce redundancies.

The company has shut down some verticals to streamline operations such as the used cars marketplace Ola Cars, quick commerce vertical Ola Dash and car-leasing service to drivers on Ola.

Other global tech giants such as Amazon and Apple have announced hiring freezes. E-commerce giant Amazon has frozen corporate hiring in its retail business for the rest of the year.

In an internal mail, the company said that it was freezing hiring for all corporate roles in its stores business, which covers its physical, online retail business and logistics operations.

Apple has paused hiring for many jobs outside of research and development, since it expects growth to slow down.

The company also believes that the supply of the iPhone 14 Pro and Pro Max will be impacted due to China's lockdown policy to deal with new covid-19 infections.

According to experts, the tech industry suffers from being too big. With new competitors such as TikTok giving Instagram and Youtube a run for their money, the big tech companies find themselves losing ground. This, coupled with the global economic recession, has forced tech giants to rethink their strategies.

It is a course correction for many companies who went on a hiring spree during the pandemic. When it comes to cutting costs, one of the first costs to go is labour costs and advertising/marketing costs.

The sudden layoffs have caused heartbreak to Indian employees of these tech companies, many of whom have been sharing stories on social media platforms.

On Twitter, Dream 11 founder Harsh Jain announced that he will offer jobs to all Indians who had been laid off by big tech companies in tech and design.

Dream11-a unicorn is an Indian fantasy sports platform that allows users to play fantasy cricket, hockey, football, kabaddi, handball, basketball, volleyball, rugby, futsal, American football and baseball.

The tech industry is recalibrating to a time when people are not at home using technology as they did during the pandemic.

This is a time of adjustment for tech companies as they get used to the new reality of global economic recession and a significant reduction in consumer spending.

The global technology industry is known to go through cycles of hiring and firing. And at this point in time, it is safe to expect more hiring freezes and layoff**S.**

INTEGRATING ALL OPTIONS

The National Logistics Policy aims to cut costs and improve efficiency

In the past one month, India's logistics sector has attracted high attention from the media and investors led by the Cabinet's approval of National Logistics Policy (NLP). This is not only a huge development for logistics companies but also for the overall economy given the role it plays in economic growth.

The National Logistics Policy is a highly anticipated reform measure aimed at the logistics sector. Analysts and sector exports are of the view that the National Logistics Policy will be a game changer as it seeks to change the structure of costs, business and overall valuation of the industry.

THE BASICS

Before we understand the policy in terms of its proposals, objectives and benefits, it is important to know the kind of services the sector provides. In logistics sector, services such as transport and storage facilities are important, especially for perishable goods like food, fruits, and vegetables.

On 21st Sept '22, the Cabinet approved the National Logistics Policy. The policy aims to work in

conjunction with PM GatiShakti National Master Plan to develop an integrated infrastructure network in a cost-efficient manner.

At present, the size of India's logistics sector is US $200 billion. In the coming years, the policy is expected to increase the role of the sector, aiding India in achieving its target of becoming a US $5 trillion economy by 2025.

AIMS & PROPOSALS

• The policy aim is to reduce the total cost of logistics from 13% to 14% at present to less than 10%

• PM Gati Shakti - a national master plan for multi-modal connectivity - will receive a boost from the National Logistics Policy. PM Gati Shakti has combined various states and departments. It will use data and help plan better various logistics infrastructure projects and optimize logistics network across India

• Online platform named Unified Logistics Interface Platform (ULIP) will combine and provide all transport-related digital services (30 logistics systems from seven different ministries / departments have been integrated with ULIP), under a single window for all stakeholders. This will provide real-time monitoring of multi-modal cargo movement

• ULIP will also be utilized for inventory management, paperless document generation, track and trace, grievance redressal, risk-based import clearance and ease of cargo movement in India

• Launch of a new online portal named Ease of Logistics Services (E-logs) would facilitate improved regulatory interface for interaction between different logistics segments and promote standardization and inter-operability

• The E-logs portal would also help the industry to directly take up operational roadblocks with government agencies

• The policy aims to establish Gati Shakti Vishwavidyalaya. This will provide logistics sector with skilled manpower. The Vishwavidyalaya will focus on five key aspects – transport-focused courses, skill development, applied research, technology development as well as transport economics and infrastructure financing

• Soft launch of digital initiative in six months. For standardization of physical assets, nodal ministries will devise methods within nine months. Sectoral plans efficient logistics (SPEL) in consultation with user industry and other ministers too will be done within six months

• The Department for Promotion of Industry and Internal Trade (DPIIT) - a logistics division, through an independent agency, may conduct "Total Transport Studies" every two years for the estimation of modal share for each transport mode and right modal mix and develop a digital system for constant monitoring of modal mix

• Prepare framework guidelines for the development of Logistics Parks within 2 months. Draft framework guidelines to facilitate the development of Logistics Parks with focus on encouraging private investment

• Secured Logistics Document Exchange (SLDE) platform to replace physical exchange of documents in domestic and EXIM trade and facilitate secure, seamless, digital transfer of various trade-related negotiables and other documents

• A digital dashboard to improve container availability in the country by reducing turnaround time through effective monitoring of container dwell times at CFSs, ICDs, ports, etc. Import Clearance System for PGAs based on risk management principles to allow officers to perform all the background/internal activities online, leading up to the issuance of an NOC.

OBJECTIVES

Now, let us understand the aims of the policy. Here are a few objectives the policy plans to achieve:

• Integrate To Function Smoothly

One of the aims of the policy is to promote intermodality and multimodality. Intermodality means transportation by more than one form of carrier on a single journey. The policy intends to integrate both intermodality and multimodality through processes and digital systems

• Optimum Use

A key aim of the policy is that companies must be able to optimally utilize logistics infrastructure and facilities

• Standardize

A key challenge in logistics sector is different and complex processes to assess the quality of assets. The policy aims at a standardized way of assessing physical assets in the sector

• Modernize

The policy aims at promoting high level of adoption of information technology, upgraded infrastructure, drones, automation, and innovation to facilitate integration

• Formalize

Lack of skilled labour is a big challenge in India's logistics sector. The policy aims to introduce skills in higher education so as to be able to work in the logistics sector

• Democratize

This is an important goal the policy intends to achieve. It aims at increasing public-private participation in the sector. Besides, it intends to address issues facing logistics companies and those companies that use logistics services

Given these proposals and objectives, now let us understand the immediate future of the sector.

THE WAY AHEAD

At present, the cost of logistics in India is close to 14% of the Gross Domestic Product (GDP) according to industry estimates. The biggest challenge in the industry is unreliability of the supply chain. The policy will reduce bottlenecks in the supply chain by relying heavily on information technology.

By 2047, it is estimated that India's GDP will touch $25 trillion. In the same period, India's logistics market is expected to grow to $1.5 to $2 trillion from $250 billion at present.

This means that the sector is expected to grow at a compound annual growth rate (CAGR) of 7% to 8% in the next 25 years. During this period, it is clear that the sector will play a crucial role in making India a key manufacturing hub.

One of the advantages of NLP is that it will bring a considerable part of the unorganized sector under the organized fold. Here it must be noted that the unorganized segment constitutes 85% of the sector. This will be achieved through data collection and transparency.

Analysts estimate that there will be considerable improvement in logistics infrastructure over the next three to five years as India Inc implements its capex expenditure plans.

Lastly, the warehousing sector will receive tremendous boost with the implementation of the policy in the coming years. At present, India's warehousing sector is growing well and becoming more organized.

An estimated 220 million square feet of warehouses can be qualified as grade-A variety across top 8 real estate markets in India. Others belong to the unorganized warehousing market. There is tremendous demand from e-commerce and 3PL operators for warehouses.

Given these factors, analysts estimate strong growth in business for organized players like VRL, TCI, and Mahindra Logistics. Even logistics companies focused on container supply chain and rail infrastructure will benefit from the improvement in logistics infrastructure. Also, analysts estimate high earnings growth for companies such as Concor and Gateway Distriparks in the coming timeS.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SENSEX
41464.01 157.99 ↑ 0.38 %
MY PORTFOLIO
Invested Value
₹47789
Current Value
₹129779
Overall G/L
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Today's G/L
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Net available margin ₹ 148546.45
Order(s)
0 Open
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BAJAJ-AUTO
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BACK FROM THE DEAD

Reviving a lapsed insurance policy is possible but it comes with its share of pain points

Insurance as a product is aimed at covering the life of the policy holder for the benefit of its beneficiaries provided the terms and conditions of the contract are honoured. One of the basic requirements is to pay insurance premiums in a timely manner at pre-decided intervals.

Insurance companies provide timely reminders for premium payments so that the policy remains active. In fact, IRDA requires insurance companies to provide a grace period of 30 days to pay premiums after it is due for policies with quarterly, semi-annual and annual payment frequencies, and 15 days for policies with a monthly payment frequency.

However, there are many instances of premium payments being missed either due to oversight or due to mis-selling by agents, leaving policyholders with a payment obligation they are unable to meet.

Once the grace period is over, the terms and conditions of the insurance contract are considered violated, and the policy is termed as 'lapsed.'

WHAT IS THE FALLOUT

Once the policy enters the 'lapsed' status, the insurance coverage is instantly lost in its entirety. So, even if the premiums were paid regularly in the past, any death claim on a lapsed policy will not be honoured by the insurance company as the terms of the insurance contract have been breached.

The implications will differ depending on the type of the policy and also on when the customer had stopped paying the premiums i.e., which year after the policy was taken.

In case of a traditional policy, if the policy premiums are not paid for the first three years, that is before the policy becomes paid-up, the policyholder risks forfeiting all premiums paid.

Post the three year period, the non-forfeiture clause kicks-in for most of these policies, and, hence, the policy will normally enter into a reduced paid-up status.

What this means is that the insurance coverage will reduce. But the policy remains active since the cash value of the policy is used as the death benefit unlike what was agreed upon.

In case of ULIPs, the failure to pay the premium within the lock-in period, which is typically five years, will lead to the policy attaining the 'lapsed' status and the money, that is, the fund value will be moved into a discontinuance fund and discontinuation charges will apply and the insurance cover will be lost.

After the lock-period ends, the policyholder can surrender the policy after which the proceeds in the discontinuation fund will be credited to the policyholder's account.

SENSE AND SENSIBILITY

Does it make sense to reinstate a policy or go in for a new one if the old one has lapsed? As far as insurance mortality charges go, they tend to increase with advancement in age and more so when one moves up the age bucket.

Hence, if one were to opt for a new one, mortality charges would have risen, leading to an increase in the premium for the same quantum of coverage. Also, expenses are front loaded in case of insurance policies (commission, marketing, etc).

Hence, after paying for those, if the policy lapses in the first three years in case of a traditional policy, the surrender value is zero and the investor ends up losing everything.

After the three-year period, when the policy has entered reduced paid up and the insurance coverage has come down, if it is surrendered, then the investor will end up getting a lot lesser money than his total investment as surrendering the policy is highly discouraged. So, the surrender value is stacked against the holder.

In case of ULIPs too, investors would be at a loss due to front loading expenses. Hence, taking into consideration these factors, reinstating / revival of a policy seems to be the more appropriate thing to do mainly for traditional policies.

REVIVE THE PAST

The ease of revival primarily depends on the time that has elapsed since the last premium payment was due in addition to factors such as age of the insured and the sum assured. If it is just a few months such as six months or below, insurers permit revival on the basis of declaration of good health.

However, if the policy has lapsed for more than a year, insurance firms usually ask for a medical check-up so that the underwriters can reassess the risk and ask for changes in terms and conditions, if required.

If the requirement of the insurer is met, the policy can be revived by paying the insurance premium(s) along with penal interest, if any.

PROCESS OF REVIVAL

The insurance policy can be reinstated within two years after the last premium was due. The procedure may differ from policy to policy and from company to company. But in general, the requirements would be as stated here.

1. Duly Filled Up Reinstatement Form

The first step to revive a policy is to fill up a reinstatement form. This can be done online or physically. The details should be filled in with utmost care because after submission, the company will evaluate your case based on the information provided. It will either directly go for revival or requests will be raised.

The changes in the reinstatement form could pertain to income level, health status, change in residency status, if any, additional insurance cover taken after this policy, any rejection of policies by insurance companies, etc.

In certain insurance policies such as money back insurance plan, endowment plan, the Certificate of Insurability (COI) and now the covid questionnaire are needed to be filled.

This essentially is a medical declaration giving the insurance company an update on your health. With it the insurance premium due has to be paid along with any penal interest. If the policy holder fails to meet the requirements of the insurance company, the amount paid for policy revival will be refunded in full by the insurance company.

2. Requirements For Revival

After screening the reinstatement form and other forms such as the covid-19 questionnaire and COI, the insurance company may come back with additional requirements. These could range from proof of income, change in domicile status and even medical check-up, especially when the time elapsed is in excess of six months, to make sure that there is no change in health status of the insured as compared to when the policy was issued.

3. Restoration Of The Policy

The insurance company will base the decision of restoration on the result of the medical test and the receipt of all documents sought from the investor. The policy will then be reinstated on and 'as is' basis or there may be a change in the terms and conditions of the contract if there is a change in medical conditions as the underwriter will take the new development into consideration.

STEPS TO ENSURE THAT THE POLICY STAYS ACTIVE

To avoid the hassle of revival, which can be tedious especially if medical check-ups are a requirement, it is highly important to pay policy premiums on time. There are various ways by which it can be done.

Opt For The ECS Facility Which Is Direct Debt

The proposer / policyholder has to submit a National Automated Clearing House (NACH) form and a cancelled cheque for the purpose of registration for electronic clearing service (ECS). This will ensure that premium against the policy is debited in a timely manner from the account on a predetermined date and for a predefined quantum.

Standing Instruction (SI) Via Net Banking

Through the net banking login, an SI can be initiated to debit the bank account or the debit card for a predefined sum at fixed intervals. The same can be done up to a limit of ₹10 lakhs.

SI Via A Credit / Debit Card

An auto-debit can be opted on the card by entering policy details, and the card details such as number, name, CVV and expiry date.

SI Via UPI

Mandated up to an amount of ₹2 lakhs, one can enrol / authorize an SI through UPI to debit the bank account for an amount and time pre-decided.

The frequency of insurance premium payments can be altered to suit the cash flow of an investor. If annual payments are not the most appropriate, several options such as monthly, quarterly, and even semi-annual payment options are available.

IN A NUTSHELL

Meeting premium payment obligations is key for insurance coverage and once the coverage is lost, no death claim will be honoured, leaving the beneficiaries in a lurch.

Hence, while opting for an insurance policy, it is crucial to take into consideration not only the quantum but the payment term, that is, the number of years for which the payment has to be honoured.

Adequate insurance coverage is important. But if there is a chance of faltering, always go for a coverage that requires the premium outflow best suited to your current cashflows. Insurance is a long-term contract and compliance is of utmost importance in order to ensure that the product truly serves its purpos**E.**

A HUGE DRAW

Target maturity funds are gaining popularity among mutual fund investors in India

T

arget maturity funds, a relatively new category in the Indian asset management space, have been catching investors' attention of late.

Ever since the Reserve Bank of India (RBI) began increasing interest rates, fund houses have been cashing in on 'high yields' offered by debt securities.

Debt funds have seen some major downgrades and defaults in the past few years. These defaults have impacted returns and flows into the category. This is because when it comes to investing in debt instruments, there are two main risks that investors need to think about.

One is interest rate risk (which is) impact on price and returns of investors' fixed income investment due to changes in interest rates. Two is default risk - the probability that the principal and interest payments on fixed income investments are not made completely.

A great way to deal with risks in debt instruments is to invest in target maturity funds.

This article attempts to shed light on target maturity funds, how they function and should investors consider these funds for investment purposes.

WHAT ARE TARGET MATURITY FUNDS

Target maturity funds are similar to index funds or exchange-traded funds (ETFs) in the equity category. In equity funds, index or ETFs invest in constituents of that particular index. For example, if someone is investing in Sensex ETFs, then his/her amount would be invested in 30 stocks of Sensex.

However, target maturity funds are passive debt funds that also track an underlying bond index. In equities, they track stocks; in debt, such funds hold debt instruments of various companies.

This means that the portfolio of target maturity funds comprises bonds that are part of the underlying bond index. More importantly, the maturity of bonds in the underlying index is close to the target or stated maturity of the fund.

The bonds in target maturity funds are held till maturity. This means that once a scheme matures, investors can redeem the money and the scheme closes down.

It is important to understand that the duration of the portfolio of all bonds in the portfolio is more or less the same and all bonds mature at more or less the same time.

For example, if the scheme will mature in 2030, the fund will invest in debt instruments maturing around the same time. As the maturity date approaches, the maturity rolls down to zero and the fund ceases to exist.

Target maturity funds are somewhat similar to fixed maturity plans (FMPs). But unlike FMPs, target maturity funds are open-ended in nature. Target maturity funds are open-ended, and offered either through ETFs or index funds, and their units can be bought or sold any time after their launch and before maturity.

When bonds in a portfolio are held till maturity, the duration of the fund keeps falling with time. As a result, investors are less prone to price fluctuations caused by interest rate changes. This is one of the reasons why investors are comfortable with investing in these schemes.

These schemes can invest only in Government Securities (G-Secs), State Development Loans (SDLs) and PSU bonds that mirror an underlying bond index. G-Secs enjoy sovereign status.

SDLs also enjoy quasi-sovereign status because interest and principal payments come from State Governments' budget. On the other hand, PSUs are owned by the government and as a result, the credit quality of target maturity funds is extremely high.

The bonds in target maturity funds' portfolios pay regular interest and principal on maturity. The coupons paid by bonds are re-invested in the fund. So, investors keep accruing interest and enjoy the benefits of compounding.

WHY ARE TARGET MATURITY FUNDS IN FOCUS NOW

In the last few months, the RBI has been on an interest rate hike spree to control raging inflation in India. Fund houses believe that this is the right time to lock-in money into target maturity funds and continue to stay invested in schemes till maturity.

Generally, when interest rates rise, prices of fixed income securities fall and when interest rates decline, prices of fixed income securities increase. However, given the structure of target maturity funds, they prevent investors from interest rate risks as bonds are held till maturity.

If investors hold these funds till maturity, they can expect to earn indicative yields. The yield-to-maturity (YTM) metric indicates the expected return.

So, investing in target maturity funds makes sense when interest rates are at their peak. Currently, these funds predominantly invest in government securities, treasury bills, state development loans and AAA-rated corporate bonds, which entail a high degree of safety.

The safe play is in line with investor sentiments, following a number of credit and liquidity events that have roiled the debt market in recent times.

In the last few months, a number of target maturity funds across maturities have been launched. In September this year, Edelweiss Mutual Fund (MF) launched Edelweiss CRISIL IBX 50:50 Gilt Plus SDL April 2037 Index Fund. This was the country's first target maturity index fund with a 15 year-long maturity.

Other fund houses such as SBI MF and Mirae Asset MF have launched similar funds. These will mature in 2036 and 2033, respectively. HDFC MF and IDFC MF have filed an offer document with the Securities and Exchange Board of India (SEBI) to launch HDFC NIFTY G-Sec December 2051 Index Fund and IDFC Crisil Gilt January 2062 Index Fund.

WHAT SHOULD INVESTORS DO

Target maturity funds offer investors an opportunity to invest in government securities and top-rated papers, thereby locking their money at current yields. This move ensures that investors are aware of the kind of returns they will get at the end of the tenure.

But investors need to understand that there will be a mark-to-market risk and volatility as bonds are priced on a day-to-day basis. However, if investors hold on till maturity, they can get returns when they have invested in the scheme.

Investors can lock-in current yields over the maturity period by investing in target maturity funds, provided their investment tenure matches the target maturity date. If any investor wants money say after five years, then he/she should invest in schemes that mature in 2026 or 2027, and not look at funds with a higher maturity period.

Another advantage of target maturity funds is that investors get the benefit of long-term capital gains if held for more than three years. Long-term capital gains in debt mutual funds are taxed at 20% after allowing for indexation benefits.

Even though target maturity funds seem similar to fixed maturity plans (FMPs), there is a key difference between the two. Investors can sell or redeem units of target maturity ETFs or index funds at any time on stock exchanges or with fund houses. Target maturity funds offer higher liquidity as compared to FMPs.

There are expectations that rates might inch up further from current levels. But this is the right time for investors to lock-in their money in target maturity funds and not wait for more rate hikes, going forwar**D.**

MUTUAL FUND BLACKBOARD

Performance Of Mutual Fund Schemes From Different Categories

Flexicap Funds

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		1 Year	3 Years	5 Years	7 Years	10 Years	
Tata Flexi Cap Fund - Reg - Growth	15.8	-3.2	12.3	--	--	--	2,260
Canara Robeco Flexi Cap Fund - Growth	227.9	-0.3	18.0	13.5	13.8	14.2	8,677
PGIM India Flexi Cap Fund - Reg - Growth	25.7	-4.9	23.5	14.0	14.4	--	5,291
UTI Flexi Cap Fund - Growth	238.5	-11.4	17.4	13.7	13.3	14.9	26,133
Union Flexi Cap Fund - Growth	34.1	-0.5	18.7	13.0	12.7	12.8	1,361
S&P BSE 500 TRI	30,755.6	4.6	18.8	12.6	14.5	14.7	--

Multicap Funds

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		1 Year	3 Years	5 Years	7 Years	10 Years	
Mahindra Manulife Multi Cap Badhat Yojana - Reg	21.3	1.6	23.0	13.9	--	--	1,511
HDFC Multi Cap Fund - Reg - Growth	11.0	--	--	--	--	--	5,803
Kotak Multicap Fund - Reg - Growth	10.6	8.3	--	--	--	--	4,303
S&P BSE 500 TRI	30,755.6	4.6	18.8	12.6	14.5	14.7	--

Large Cap Funds

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		1 Year	3 Years	5 Years	7 Years	10 Years	
Invesco India Largecap Fund - Growth	44.5	-2.1	15.0	11.0	11.9	13.5	755
UTI Mastershare Unit Scheme - Growth	198.1	-1.0	16.4	11.8	12.5	13.6	10,878
Canara Robeco Bluechip Equity Fund - Growth	42.4	1.3	16.9	13.8	14.1	14.1	8,548
Nifty 50 TRI	26,561.9	5.8	16.7	13.4	14.2	13.9	--

Mid Cap Funds

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		1 Year	3 Years	5 Years	7 Years	10 Years	
Tata Mid Cap Growth Fund - Reg - Growth	247.2	0.4	21.2	11.7	13.5	18.1	1,752
Mahindra Manulife Mid Cap Unnati Yojana - Reg -	17.7	1.5	22.5	--	--	--	1,061
Edelweiss Mid Cap Fund - Growth	52.9	3.5	25.8	13.3	15.5	20.1	2,397
Axis Midcap Fund - Growth	67.5	-4.6	20.0	15.5	15.3	18.3	19,708
Nippon India Growth Fund - Reg - Growth	2,147.2	3.3	24.4	13.1	15.2	16.4	13,510
Kotak Emerging Equity Fund - Reg - Growth	76.0	4.9	24.5	13.6	16.4	19.5	22,540
Nifty Midcap 150 TRI	14,733.1	2.8	25.0	12.5	16.2	18.2	--

Large & Mid Cap Funds

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		1 Year	3 Years	5 Years	7 Years	10 Years	
Axis Growth Opportunities Fund - Reg - Growth	19.6	-7.4	18.8	--	--	--	8,460
Canara Robeco Emerging Equities - Growth	164.5	0.5	20.2	12.0	15.0	20.4	15,581
Edelweiss Large & Mid Cap Fund - Growth	54.5	3.0	19.1	12.8	14.0	14.9	1,636
Kotak Equity Opportunities Fund - Reg - Growth	208.1	7.1	18.6	12.3	14.6	16.0	11,370
Mahindra Manulife Top 250 Nivesh Yojana - Reg	17.5	1.3	--	--	--	--	1,057
NIFTY Large Midcap 250 TRI	12,848.4	3.8	20.9	12.7	15.3	16.4	--

Focused Funds

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		1 Year	3 Years	5 Years	7 Years	10 Years	
HDFC Focused 30 Fund - Growth	134.5	18.6	20.0	10.0	11.9	13.7	2,646
Nippon India Focused Equity Fund - Reg - Growth	82.5	5.2	21.2	11.1	13.5	17.5	6,332
ICICI Prudential Focused Equity Fund - Ret - Growth	52.4	5.5	21.7	12.6	13.4	14.0	3,866
SBI Focused Equity Fund - Growth	232.8	-9.1	15.5	12.4	14.2	15.2	28,407
S&P BSE 500 TRI	30,755.6	4.6	18.8	12.6	14.5	14.7	--

Small Cap Funds

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		1 Year	3 Years	5 Years	7 Years	10 Years	
Axis Small Cap Fund - Reg - Growth	63.7	5.3	26.6	18.0	18.2	--	10,992
Edelweiss Small Cap Fund - Reg - Growth	25.4	5.2	32.8	--	--	--	1,382
Nippon India Small Cap Fund - Reg - Growth	92.8	11.4	34.5	16.2	19.2	24.3	22,844
ICICI Prudential Smallcap Fund - Growth	54.1	4.6	29.3	13.1	15.1	16.7	4,388
Union Small Cap Fund - Reg - Growth	29.9	3.9	29.3	13.3	13.8	--	1,161
Nifty Smallcap 250 TRI	11,742.1	-0.3	26.9	7.7	12.6	15.4	--

ELSS Funds (Tax Saving u/s 80-C)

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		1 Year	3 Years	5 Years	7 Years	10 Years	
UTI Long Term Equity Fund (Tax Saving) - Growth	143.9	-3.0	17.4	10.8	12.4	13.6	3,011
Canara Robeco Equity Tax Saver Fund - Growth	119.0	1.4	21.0	15.4	14.8	15.6	4,407
Kotak Tax Saver Fund - Reg - Growth	76.2	5.5	18.6	12.6	14.3	15.0	3,063
Mahindra Manulife ELSS Kar Bachat Yojana - Reg	19.4	4.3	18.4	9.6	--	--	517
Mirae Asset Tax Saver Fund - Reg - Growth	31.5	0.0	19.0	13.7	--	--	13,546
Tata India Tax Savings Fund - Reg - Growth	29.9	6.4	16.5	11.1	13.9	--	3,191
S&P BSE 200	9,844.2	5.2	18.2	13.1	14.6	14.7	--

Value/Contra Funds

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		1 Year	3 Years	5 Years	7 Years	10 Years	
IDFC Sterling Value Fund - Reg - Growth	92.6	7.5	25.5	10.6	15.0	16.1	5,098
SBI Contra Fund - Growth	228.4	13.9	30.6	14.0	15.1	15.2	6,694
Nippon India Value Fund - Reg - Growth	128.7	4.8	20.2	11.8	13.2	14.9	4,866
S&P BSE 500 TRI	30,755.6	4.6	18.8	12.6	14.5	14.7	--

Dividend Yield Funds

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		1 Year	3 Years	5 Years	7 Years	10 Years	
ICICI Prudential Dividend Yield Equity Fund - Reg	29.4	11.0	23.3	10.3	13.5	--	1,181
Sundaram Dividend Yield Fund - Growth	88.3	3.6	18.0	11.0	14.3	13.7	345
UTI Dividend Yield Fund - Growth	102.7	-4.6	16.6	10.7	12.0	12.1	2,865
S&P BSE 500 TRI	30,755.6	4.6	18.8	12.6	14.5	14.7	--

Sector/Thematic Funds

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		1 Year	3 Years	5 Years	7 Years	10 Years	
Mirae Asset Great Consumer Fund - Growth	59.1	4.8	17.0	12.7	15.1	16.5	2,046
ICICI Prudential Technology Fund - Growth	138.1	-15.5	34.8	25.5	18.9	22.0	9,182
Nippon India Pharma Fund - Reg - Growth	285.0	-5.0	23.7	16.0	9.9	15.8	4,786
Nippon India Banking & Financial Services Fund - Reg	398.2	11.6	11.5	8.5	13.1	13.8	3,822
S&P BSE 500 TRI	30,755.6	4.6	18.8	12.6	14.5	14.7	--

Dynamic Asset Allocation Funds

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		1 Year	3 Years	5 Years	7 Years	10 Years	
PGIM India Balanced Advantage Fund - Reg - Growth	11.7	2.9	--	--	--	--	1,523
Nippon India Balanced Advantage Fund - Reg	127.6	4.8	11.0	8.4	10.2	11.7	6,681
Tata Balanced Advantage Fund - Reg - Growth	15.3	5.3	12.5	--	--	--	6,069
Edelweiss Balanced Advantage Fund - Growth	36.9	2.4	14.5	10.8	10.5	11.5	8,927
Union Balanced Advantage Fund - Reg - Growth	15.4	2.1	11.2	--	--	--	1,857
NIFTY 50 Hybrid Composite Debt 65:35 Index	15,324.0	4.8	13.7	11.7	12.3	12.1	--

Hybrid Aggressive Funds

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		1 Year	3 Years	5 Years	7 Years	10 Years	
Canara Robeco Equity Hybrid Fund - Growth	251.9	2.5	15.1	11.6	12.0	14.0	8,451
SBI Equity Hybrid Fund - Growth	208.1	2.3	13.2	10.6	11.7	14.4	56,730
Mirae Asset Hybrid - Equity Fund - Reg - Growth	22.6	1.6	13.5	10.6	12.6	--	7,151
NIFTY 50 Hybrid Composite Debt 65:35 Index	15,324.0	4.8	13.7	11.7	12.3	12.1	--

Equity Savings Funds

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		1 Year	3 Year	5 Years	7 Years	10 Years	
ICICI Prudential Equity Savings Fund - Reg - Growth	17.9	6.0	7.3	7.0	8.1	--	4,971
PGIM India Equity Savings Fund - Growth	40.7	2.7	7.0	6.7	7.1	8.2	170
NIFTY 50 Hybrid Composite Debt 65:35 Index	15,324.0	4.8	13.7	11.7	12.3	12.1	--

Multi Asset Allocation Funds

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		1 Year	3 Year	5 Years	7 Years	10 Years	
HDFC Multi - Asset Fund - Growth	49.7	3.8	14.9	10.0	10.0	10.2	1,624
Nippon India Multi Asset Fund - Reg - Growth	13.5	2.3	--	--	--	--	1,146
Tata Multi Asset Opportunities Fund - Reg - Growth	16.3	5.9	--	--	--	--	1,452
NIFTY 50 Hybrid Composite Debt 65:35 Index	15,324.0	4.8	13.7	11.7	12.3	12.1	--

Gold Funds

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		1 Year	3 Year	5 Years	7 Years	10 Years	
HDFC Gold Fund - Growth	16.3	7.9	9.9	10.7	9.6	3.6	1,290
Kotak Gold Fund - Reg - Growth	21.1	7.2	9.7	11.2	9.7	3.5	1,275
Nippon India Gold Savings Fund - Reg - Growth	20.9	7.8	9.5	10.6	9.4	3.4	1,379
Prices of Gold	52,159.0	9.4	11.0	12.1	10.9	5.0	--

Arbitrage Funds

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		3 Months	6 Months	1 Year	2 Years	3 Years	
IDFC Arbitrage Fund - Reg - Growth	27.0	4.8	3.7	3.5	3.6	3.6	3,853
Kotak Equity Arbitrage Fund - Reg - Growth	31.0	4.9	3.9	3.9	4.0	4.1	22,082
Tata Arbitrage Fund - Reg - Growth	12.0	4.7	3.7	3.5	3.7	4.1	6,628
Nippon India Arbitrage Fund - Reg - Growth	22.2	4.7	3.7	3.6	3.8	3.9	9,008
Edelweiss Arbitrage Fund - Reg - Growth	16.1	4.8	3.8	3.7	3.9	4.1	5,535

Overnight Funds

SCHEME NAME	NAV	Historic Return (%)				YTM	AUM (Cr)
		2 Weeks	1 Month	3 Months	1 Year		
Aditya Birla Sun Life Overnight Fund - Reg	1,180.5	5.6	5.7	5.6	4.3	6.13	14,660
IDFC Overnight Fund - Reg - Growth	1,164.8	5.7	5.7	5.6	4.3	6.08	3,427
Mahindra Manulife Overnight Fund - Reg - Growth	1,131.6	5.6	5.7	5.6	4.3	6.15	163
Tata Overnight Fund - Reg - Growth	1,152.7	5.6	5.7	5.5	4.3	6.16	4,805
Nippon India Overnight Fund - Reg - Growth	117.3	5.7	5.7	5.6	4.3	6.13	14,561

Liquid Funds

SCHEME NAME	NAV	Historic Return (%)				YTM	AUM (Cr)
		2 Weeks	1 Month	3 Months	1 Year		
Aditya Birla Sun Life Liquid Fund - Reg - Growth	351.3	6.4	6.4	5.7	4.5	6.66	35,107
ICICI Prudential Liquid Fund - Reg - Growth	323.0	6.1	6.3	5.6	4.4	6.50	38,270
Kotak Liquid Fund - Reg - Growth	4,413.3	6.3	6.3	5.6	4.4	6.54	29,590
Nippon India Liquid Fund - Reg - Growth	5,327.5	6.3	6.4	5.7	4.4	6.67	23,692
Mahindra Manulife Liquid Fund - Reg - Growth	1,419.1	6.2	6.4	5.8	4.5	6.58	592

Ultra Short Term Funds

SCHEME NAME	NAV	Historic Return (%)				YTM	AUM (Cr)
		3 Months	6 Months	1 Year	3 Years		
HDFC Ultra Short Term Fund - Reg - Growth	12.6	5.1	5.1	4.1	4.7	7.14	12,810
ICICI Prudential Ultra Short Term Fund - Growth	23.1	5.1	5.1	4.2	5.0	7.36	11,664
UTI Ultra Short Term Fund - Growth	3,551.5	4.8	4.9	3.9	5.2	7.21	2,073
Aditya Birla Sun Life Savings Fund - Reg - Growth	453.2	5.3	5.4	4.4	5.2	7.45	14,075

Money Market Funds

SCHEME NAME	NAV	Historic Return (%)				YTM	AUM (Cr)
		3 Months	6 Months	1 Year	3 Years		
Aditya Birla Sun Life Money Manager Fund - Reg	305.2	5.5	5.6	4.5	5.0	7.25	12,904
SBI Savings Fund - Growth	34.6	4.9	5.0	4.0	4.4	7.17	18,910
HDFC Money Market Fund - Growth	4,724.8	5.3	5.3	4.4	4.9	7.12	13,947
Nippon India Money Market Fund - Reg - Growth	3,424.7	5.5	5.6	4.6	4.9	7.17	9,487
Tata Money Market Fund - Reg - Growth	3,896.8	5.4	5.5	4.4	4.9	7.27	6,935

Short Term Funds

SCHEME NAME	NAV	Historic Return (%)				YTM	AUM (Cr)
		3 Months	6 Months	1 Year	3 Years		
Aditya Birla Sun Life Short Term Fund - Reg	39.3	4.9	5.8	3.8	6.1	7.74	5,857
HDFC Short Term Debt Fund - Growth	26.2	4.7	5.5	3.1	6.0	7.54	12,505
Nippon India Short Term Fund - Reg - Growth	43.5	4.2	5.1	2.9	5.6	7.73	6,639
ICICI Prudential Short Term Fund - Growth	49.4	6.8	7.3	4.2	6.3	7.82	14,606
Kotak Bond Short Term Fund - Reg - Growth	43.3	4.9	5.3	2.7	5.3	7.66	12,373

Low Duration Funds

SCHEME NAME	NAV	Historic Return (%)				YTM	AUM (Cr)
		3 Months	6 Months	1 Year	3 Years		
HDFC Low Duration Fund - Growth	48.0	5.2	5.1	3.7	5.2	7.39	15,018
ICICI Prudential Savings Fund - Reg - Growth	446.6	7.4	6.0	3.9	5.6	7.47	21,055
Nippon India Low Duration Fund - Reg - Growth	3,121.1	4.6	5.0	3.8	5.2	7.61	6,060
Mirae Asset Savings Fund - Regular Savings Plan	1,886.9	4.5	4.9	3.6	4.3	7.27	663.0
Kotak Low Duration Fund - Std - Growth	2,792.8	5.2	5.1	3.5	5.1	7.63	7,203

Banking & PSU Bond Funds

SCHEME NAME	NAV	Historic Return (%)				YTM	AUM (Cr)
		3 Months	6 Months	1 Year	3 Years		
HDFC Banking and PSU Debt Fund - Reg - Growth	19.0	4.7	5.1	2.9	5.7	7.32	4,944
Tata Banking & PSU Debt Fund - Reg - Growth	11.9	4.1	4.8	2.5	5.4	7.29	283
Kotak Banking and PSU Debt Fund - Reg - Growth	54.0	6.1	6.0	3.3	5.9	7.67	6,419
Nippon India Banking & PSU Debt Fund - Reg	17.1	4.5	5.2	2.8	5.8	7.49	4,104
Edelweiss Banking & PSU Debt Fund - Reg	20.3	4.0	7.7	2.3	6.6	7.58	358

Corporate Bond Funds

SCHEME NAME	NAV	Historic Return (%)				YTM	AUM (Cr)
		3 Months	6 Months	1 Year	3 Years		
ICICI Prudential Corporate Bond Fund - Reg - Growth	24.4	7.0	6.7	3.9	6.3	7.71	14,985
IDFC Corporate Bond Fund - Reg - Growth	15.9	3.6	4.7	2.2	5.8	7.33	16,418
HDFC Corporate Bond Fund - Growth	26.6	5.1	6.1	2.8	6.2	7.46	21,473
Kotak Corporate Bond Fund - Std - Growth	3,099.4	5.3	5.4	3.3	5.6	7.66	8,614

Credit Risk Funds

SCHEME NAME	NAV	Historic Return (%)				YTM	AUM (Cr)
		3 Months	6 Months	1 Year	3 Years		
ICICI Prudential Credit Risk Fund - Growth	25.9	5.0	6.3	4.7	7.1	8.84	7,838
HDFC Credit Risk Debt Fund - Reg - Growth	19.8	4.3	6.0	3.5	7.1	8.63	8,524
SBI Credit Risk Fund - Growth	37.1	5.2	5.7	3.9	6.1	8.11	2,876

Floater Funds

SCHEME NAME	NAV	Historic Return (%)				YTM	AUM (Cr)
		3 Months	6 Months	1 Year	3 Years		
Aditya Birla Sun Life Floating Rate Fund - Reg	285.9	5.6	5.6	4.3	5.6	7.47	13,354
Nippon India Floating Rate Fund - Reg - Growth	37.0	4.9	5.2	3.4	6.2	7.37	8,482

Gilt Funds

SCHEME NAME	NAV	Historic Return (%)				YTM	AUM (Cr)
		3 Months	6 Months	1 Year	3 Years		
Nippon India Gilt Securities Fund - Reg - Growth	31.4	6.6	6.5	1.4	5.0	7.60	1,119
Kotak Gilt Fund - Growth	79.9	7.0	6.4	1.7	5.8	7.80	1,719
IDFC G Sec Fund - Invt Plan - Reg - Growth	28.8	2.6	5.2	0.9	5.7	7.43	1,409

Dynamic Bond Funds

SCHEME NAME	NAV	Historic Return (%)				YTM	AUM (Cr)
		3 Months	6 Months	1 Year	3 Years		
ICICI Prudential All Seasons Bond Fund - Growth	30.2	7.2	8.5	3.9	7.0	7.89	5,938
Nippon India Dynamic Bond Fund - Reg - Growth	30.2	2.6	5.9	1.2	4.9	7.83	3,053
Kotak Dynamic Bond Fund - Reg - Growth	30.8	4.9	5.8	1.9	5.7	7.47	2,015

Medium Duration Funds

SCHEME NAME	NAV	Historic Return (%)				YTM	AUM (Cr)
		3 Months	6 Months	1 Year	3 Years		
ICICI Prudential Medium Term Bond Fund - Growth	36.8	5.3	7.2	3.7	6.8	8.03	6,288
HDFC Medium Term Debt Fund - Growth	46.4	4.5	6.0	2.6	5.9	8.07	3,666
SBI Magnum Medium Duration Fund - Growth	42.0	5.5	6.4	2.9	6.5	7.81	8,969

Disclaimer : Mutual Fund Investments are subject to market risks. Please read the offer document carefully before investing. Past performance is no guarantee of future performance. Returns are of Growth option of Regular plans. Returns which are below 1 year period are Annualized Returns. Source: - ICRA MFI, NAV as on 23rd November 2022

TECHNICAL OUTLOOK

The rally in November was led by Bulls. In the same month, the Nifty was seen moving in the upward rising channel, suggesting a potential upmove as long as it held on to the support of the channel. An upward rally was seen from 18,000 to 18,600 levels, and is still going strong at every support level.

The sentiment on D-Street appeared cautious in early November. Yet, a pullback rally was visible as the stocks were doing really well. This helped the Nifty to move in the upward direction.

Currently, the Nifty is trading near its resistance zone of 18,600-18,670. And we may witness profit booking at higher levels. However, we may see an uptick in volatility, going forward.

In the next couple of sessions, the Nifty is likely to face strong resistance at 18,600-18,670 levels as per Fibonacci Retracement. The Nifty has shown a strong rally from its 50-DMA, that is, 17,500 level. The recent rally in the Nifty was seen from its 50 DMA, that is, 17,500, which will act as a strong, immediate support level. Going ahead, 18,370-18,200 will act as a strong support. As long as the Nifty holds this support zone, strength will remain intact and upside rally will continue.

Technically, a breakout at the 18,600-18,670 level on closing basis may result in a strong up move towards 18,900-19,150 levels. The overall trend appears to be range-bound. On the flip side, if the Nifty breaks 18,370-18,200 levels on closing basis, we may witness profit booking, which might drag the Nifty towards the 17,900-17,700-mark.

Market participants are advised to be stock-specific and stay light with major long positions. They should follow the trend with a major support of 18,370.

The Bank Nifty rallied in the positive in November and moved towards 43,500 from 41,700. However, after quoting a high of 43,600, the Bank Nifty is seeing a sideways movement in the November series.

Technically, the Bank Nifty has an immediate resistance at 43,600. Any move above 43,600 on closing basis may extend its rise towards 44,200 - 44,400, which will also be its all-time high. On the flip side, support is placed at 42,900. And then, the Bank Nifty may extend its fall towards 42,200-41,800 levels.

On the Nifty Options front for the December series, the highest Open Interest (OI) build up is witnessed near 19,000 and 19,500 Call strikes, whereas on the Put side, it is observed at 18,500 and 18,000 strikes.

November saw average rollovers in terms of Nifty but much higher rolls in Bank Nifty, indicating that the Nifty might continue previous month's momentum. The Bank Nifty might, however, experience a pause in momentum. For this month, stocks from Metals, Technology, Oil & Gas sectors are likely to witness further buying. Similarly, select stocks from Banking and Finance sectors are likely to witness selling.

India VIX, which measures the immediate 30-day volatility in the market, saw a good down tick, which was responsible for the rally in the index. Going forward, VIX is likely to witness range-bound trade. With Gujarat election in December, VIX might spike for a few days before falling again.

The Put Call Ratio-Open Interest (PCR-OI) for Nifty Options has been in the range of 0.7-1.4 in the month of November. Going forward, it is expected to remain in the range of 0.7-1.5 in December.

The markets are believed to remain bullish with supports placed at 18,500 and 18,000; while the markets will continue to witness some important resistances at 19,000 and 19,500 levels.

OPTIONS STRATEGY

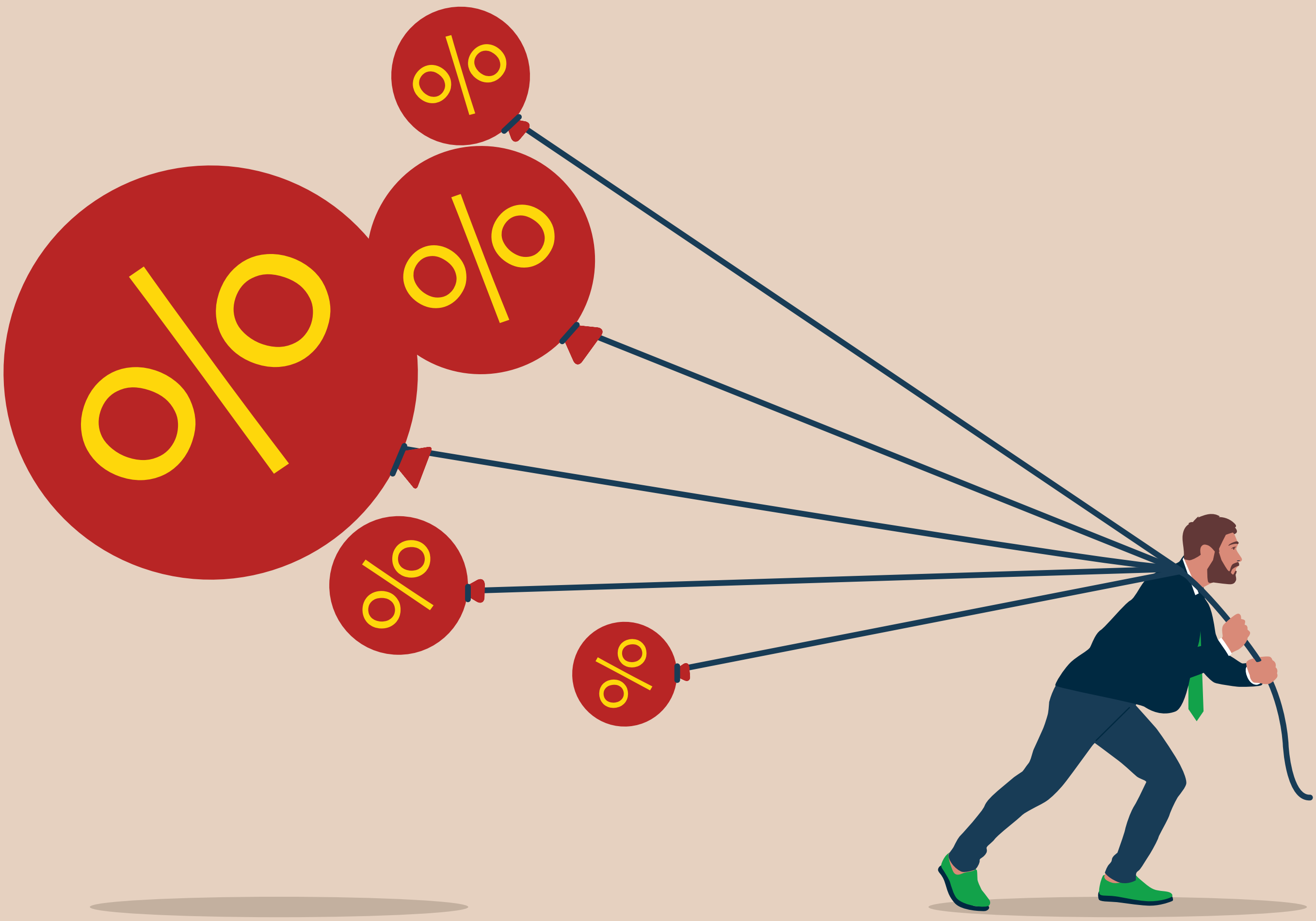
Long Straddle

It can be initiated by 'Buying 1 lot 08DEC 18700 CE (₹100) and Buying 1 lot 08DEC 18700 PE (₹185).' The premium outflow comes to around 285 points, which is also the maximum loss. One should, however, place a stop loss at 185 points (100 point loss). The maximum gain is unlimited and one should place the Target at 485 points (200 point gain).

With some important events approaching in the next fortnight, the index is likely to move more than 350 points in either direction, which would result in decent gains for the strateg**Y.**

A REMEDIAL PULLBACK

Lifestyle cutbacks and other strategies may help investors protect their future in a rising inflationary environment



Inflation continues to be a hot-button issue for all, and has left many from central banks to households disenchanted by eroding value and eating into savings. An overwhelming majority of individuals blame high inflation on headwinds caused by Russia's invasion of Ukraine, which rattled global oil markets, and supply chain concerns, among other issues.

In India, higher energy prices have fuelled inflation. Furthermore, increased prices of other commodities too have pushed inflation higher in India and around the world. From energy to metals to agricultural commodities, unreasonably high prices have kept inflation at alarmingly high levels.

India's CPI touched 7.04% in May. It further zoomed to 7.41% in September this year, well above RBI's target of 4%.

Higher inflation means erosion of capital and real returns. Savers will have to save more to protect their capital. Loans, existing and new, will become expensive. People will have to pay more for their EMIs, and financial costs will increase in general.

Household expenses will go up, leading to higher expenses, thus impacting budgets. For instance, a household that currently requires ₹70,000 per month would need ₹89,340 per month to maintain the same standard of living, with a 5% annual increase in inflation.

If the rate of inflation in this situation was 9%, the increase in expenditure would be nearly ₹38,000, raising total expenses to ₹1,07,704 a month. This is huge. Inflation will slowly eat your capital and erode wealth over time.

Here are a few strategies that could help investors protect their wealth and investments in an inflationary environment.

CUT THE DEBT

High inflation goes hand in hand with high interest rates. To ease inflationary pressure, central banks have a variety of approaches. The RBI on its part has already signalled that it is committed to tightening monetary policy and raising interest rates to curtail inflation.

Since May this year, the RBI has raised its benchmark repo rate by 190 basis points. The repo rate, which currently stands at 5.9% is expected to go up further.

Over the next few months rates could go even higher with expectations of about a 50-basis points rate hike in the December meeting as inflation numbers continue to be above the RBI's comfort zone. Also, the rapid rate hike by the US Fed has compelled the RBI to keep on raising interest rates.

In this scenario, to counter the impact, one of the approaches could be prepaying a loan in manageable amounts. For example, paying 5% of the total unpaid amount or prepayments in the form of an extra EMI could help in reducing the duration of the loan or total interest paid.

Even a partial prepayment of the loan could help in reduce the overall burden on your EMIs and monthly outflows.

PREPARING YOURSELF FOR EMERGENCIES

With high inflation, having a safety net is vital especially if you have fixed expenses such as an EMI. Doing so ensures that in the event of any unforeseen financial emergency, you need not borrow money or sell assets to manage.

As a rule of thumb set aside four to six months' monthly income, mainly in the form of liquid funds; the bond index fund, which is liquid and low risk, or any similar instrument could act as a backup if something were to happen that would disrupt your current income or create an unforeseen expense due to increase in inflation and interest rates.

AVOID TAKING ON FURTHER DEBT

Unless absolutely necessary, investors would be better off delaying large expenses or avoiding non-essential impulsive purchases.

If they could postpone a large-value expenditure such as buying a car or an expensive international holiday, then it would save them some money and reduce any financial burden.

This is applicable even more to expenditures that necessitate the use of taking loans and paying EMIs.

Doing so will reduce the burden investors will face financially and allow them to make greater contributions to their savings with money that would have otherwise gone towards repaying debt.

These increased savings could then be strategically invested in instruments that both preserve capital and create growth, such as balanced funds or capital protection funds to provide additional benefits.

SAVE 5% MORE EVERY YEAR

If you are in the habit of putting aside some money regularly now, consider increasing the amount you save. A growth of 5% in savings every year could allow you to take care of expenses and other issues that could cause problems down the line due to increased cost of living or additional burdens that could bother investors due to increasing interest costs.

To stay ahead of inflation and manage any future obligations, an incremental saving rate is vital. Regardless of whether an investor is planning for his/her retirement, investing in equity funds or putting money in fixed deposits, a slight increase of just 5% to 6% could act as a buffer against uncertainty and greatly improve his/her financial situation in the future.

PAY OFF FLOATING INTEREST RATE LOANS

The most effective way for a central bank to curb inflation is to raise interest rates. The Reserve Bank of India has already done so and has indicated that it is committed to continuing rate hikes until the rate of inflation is within its target zone.

What this translates into is a massive hike in interest payments on any debt taken where the interest rate is not fixed and is based on the current market rate, which is going ever higher.

There are different ways by which investors can counter such a financial burden. They could either pay off the loan early or if that is not possible, combine and utilize debt with a fixed rate of interest to eliminate floating rate loans to protect themselves from rising inflation and the subsequently growing rate of interest in the future that could burn a hole in their pockets.

Floating rate loans, particularly smaller consumer loans, tend to be costly. Paying down some of these debts or swapping them could be a good strategy to counter rate hikes. A loan against property would be at least 400-500 basis points cheaper than a personal loan or a car or a television or a credit card loan.

INCREASE INVESTMENTS IN EQUITIES

The ideal way for investors to beat inflation is to consistently increase their allocation to equities. In the long term, equity markets tend to outperform interest rates or inflation, and this is a well-documented fact.

Investing in high-quality blue-chip companies or choosing a well-diversified blue-chip fund could prove to be beneficial to investors. This would not only provide exposure to equity markets but also help protect capital.

Those who think direct exposure to equities is risky could opt for mutual funds, preferably blue-chip funds, balanced funds, or large-cap funds that invest in tried and tested blue-chip companies that are safe and liquid.

Besides, instead of investing a lumpsum amount, investors could also look for SIPs in these funds or add an amount to an ongoing equity SIP.

AVOID USING SAVINGS AND NOT BREAKING FIXED DEPOSITS

High interest rates tend to tempt investors with offers of exceedingly high rate of returns. However, these lures could be risky and result in wealth destruction. Thinking short-term, investing in high return, high-risk products, and quick money-making schemes could be a trap.

Furthermore, tempted by high returns investors often overlook expenses involved in high-return baits. These come in the form of penalties levied on breaking a bank fixed deposit, tax considerations, liquidity of assets involved and other hassles.

Bank fixed deposits and small liquid savings provide a consistent source of income in the form of interest with a degree of security in uncertain economic conditions. Therefore, investors would be better off keeping their savings intact and not breaking their bank fixed deposit**S.**

BEYOND WORDS

Nouriel Roubini

Turkish-born Iranian-American economist Nouriel Roubini is renowned for predicting the sub-prime mortgage crisis of 2007-08 in the US, and the subsequent global financial meltdown. Earlier in 2006, while addressing the International Monetary Fund, he warned of the approaching recession owing to the credit and housing market bubble. His predictions came true in 2008 after the bubble burst and lasted well into the following decade. His persistently pessimistic economic outlooks earned him the nickname Doctor Doom by the media. Apart from co-authoring several books, he has also published policy papers on a range of international macroeconomic issues.

IMPORTANT JARGON

INDIA ROLLS BACK EXPORT TAXES ON STEEL PRODUCTS

Recently, the government withdrew the export taxes it had levied in May '22 on some steel products. While there were speculations that the government may roll back the hike in export duties in phases, the withdrawal has come earlier than expected.

Q. Why In The First Place Did The Government Impose Export Duties On Steel Products In May?

The government had imposed a 15% export duty on key categories of steel and raw materials to contain inflation in steel prices. Duty hikes were warranted as a global rally in the commodities market since 2021 had driven domestic steel prices to all-time highs. Consequently, steel-user industries like construction, automakers and consumer appliances and durables had to take price hikes, thereby impacting the demand in the economy. With the imposition of export taxes, the government hoped domestic steel supplies to increase and drag steel prices lower, making them affordable.

Q. What Was The Steel Industry's Reaction Then?

Around the time the government imposed export taxes, the steel industry was in very good shape. Exports had turned lucrative for Indian steel makers in the last few years. For the first time in two decades, China was a net importer of steel for few months in 2020.

International prices were high. Sensing the opportunity, Indian steel makers exported a good amount of steel at remunerative prices starting 2020, posting a record-high number of around 18.3 million tonnes in fiscal year 2021-22.

With higher realization per tonne of steel sold, Indian companies used the opportunity to deleverage their balance sheets and gain global market share.

Q. So, What Was The Impact On Steel Exports From India?

The trend in exports started to change post-export tax levy in May. Exports fell to half from an average of around 0.78 million tonnes in April ’22 to May ’22 to around 0.36 million tonnes in October ’22.

India’s steel exports in the June-October ’22 period were down 63% as compared to the same period last year. This was the lowest monthly level of exports since May ’16.

Q. What Happened To Imports?

Sadly, steel imports in October ’22 went to their highest monthly levels since October ’19. Low regional prices have caused steel imports to increase by around 57% in October as compared to last October.

Export taxes transformed India from a net exporter to a net importer of steel after 36 months.

Q. But What Happened To Steel Prices? Were They Contained Post-Export Tax Levies?

Yes. Steel prices fell as stocks of local steel increased domestically. Domestic benchmark steel prices have fallen by around 30% from the peak of ₹77,000/tonne seen in early May.

Even domestic iron ore and pellet prices have fallen sharply since May. Global prices are also significantly down compared to May ’22.

Q. How Were The Finances Of Steel Companies Impacted?

Owing to export levy and global scenario, the Indian steel sector, for the first time in many years, reported losses in a quarter (September quarter).

Shares of steel companies on stock exchanges plunged post-imposition of the export levy. A sudden tax imposition disturbed the long-term planning and decision-making of steel companies.

Q. What Are The Growth Plans Of Domestic Steel Companies?

The steel industry is in the middle of its capital expansion programme. Steel companies have announced capacity expansion plans entailing an investment outlay of US $65 billion to $70 billion. This will take India’s crude steel production to 128 million tonnes per annum in the next few years itself.

For the long term, India aims to expand steel production capacity to 300 million tonnes by 2030 from current levels of around 150 million tonnes.

Q. How Big Is India’s Steel Sector?

India is the second largest producer of crude steel in the world. India’s crude steel production has increased from 109 million tonnes in FY19-20 to 120 million tonnes in FY21-22. Currently, steel companies are running at around 80% capacity utilisation levels.

Q. Now After The Removal Of Export Taxes, Will Exports Increase?

Yes, but it will take time to return to previous export levels of around 0.8 million tonnes per month.

There are several reasons:
1) the steel sector is witnessing a slowdown in demand due to a recessionary scenario in China and in developed economies such as in the US and in Europe
2) domestic prices are already at around 15% to 20% premium to landed import prices of steel.

According to analysts, trade enquiries from Europe, the US and Latin America have dried up in recent months, leaving Indian steel mills with limited choices.

Industry analysts point out that Indian steel may find favour in Asian countries like Thailand, Malaysia, Indonesia, Vietnam and Philippines and Africa in the future.

Q. How Have Steel Companies Reacted To The News On The Bourses?

The removal of export taxes is a positive sentiment for steel companies. A significant sector headwind has been removed.

Further, given demand-supply dynamics globally and the appropriate inventory level in India, domestic steel prices are unlikely to increase substantially from here onwards. This removes the scope of imposition of duties in the immediate future.

Steel majors like JSW Steel, Tata Steel, JSPL and SAIL are well-placed within the sector from a long-term perspectiv**E.**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SUNSHINE: A RAY OF HOPE
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RAISING THE STAKES
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CONFLICT OF INTEREST
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THE ALCHEMY OF PARTNERSHIPS
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A GLOBAL PLIGHT
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