



ROAD AHEAD FOR INVESTMENTS

- Equity :
Mutual Funds, PMS
- Fixed Income :
FD, Debt Funds, Bonds
- Real Estate
- Unit Linked Insurance



Winds of change on the Economic Front



Winds of change on the Economic Front

India's Economic Growth rate challenged

- ✓ GDP growth of India has come under stress in the recent times.
- ✓ India still continues to be one of the fastest growing economies in the world.
- ✓ Growth is now picking up, as the festive demand was encouraging.

Winds of change on the Economic Front

Budget estimates likely to get disturbed

- ✓ Budgetary deficit to rise on account of tax cuts. Reduction of rate of Corporate Tax to revive the economy to cost the Government Rs. 1.45 lakh Crores.
- ✓ GST collections below expectations.
- ✓ Bold moves to revive the economy expected to be funded by means like buoyancy in tax collections, strategic disinvestment of PSU Bharat Petroleum etc.

Winds of change on the Economic Front

Liquidity in the economy under stress

- ✓ Loose bank lending stopped. Even 11 PSU Banks with Balance Sheet problems were placed under PCA (Prompt Corrective Action).
- ✓ NBFC (Non Banking Financial Companies) who had lent to weak borrowers were under stress. Government allowed them to bear the consequences.
- ✓ Ample liquidity with banks and good NBFC for sound borrowers.

Winds of change on the Economic Front

Government in proactive mode

- ✓ Softening the high handed approach – Taxation & Fiscal discipline.
- ✓ Reactivating the entire economy by micro management. Businesses reorienting themselves as per the Government initiatives – Affordable housing, Tap water for every house, Roads etc.
- ✓ Taking certain very bold steps, like reduction of corporate tax, which can prove to be a game changer.
- ✓ Global recognition – up-gradation of India in “Ease of doing business” ranking.

Winds of change on the Economic Front

Indirect Tax (GST) impacting the entire ecosystem

- ✓ Parallel economy in the country on a decline.
- ✓ Cause for business disruption. Some business operations becoming unavailable.
- ✓ Rules of doing business changing.
- ✓ Building a solid foundation of economic growth.

Winds of change on the Economic Front

Direct Tax (Income Tax) changes impacting the entire ecosystem

- ✓ Demonetisation – successful or not? For sure laid foundation for less cash economy and better compliance.
- ✓ Technology based scrutiny of the entire financial system. Processing of submitted data and external data, and establishing its inter linkages.
- ✓ Avenues of investments of unaccounted money limited and hazardous.

Equity – Mutual Funds, PMS



Equity – Mutual Funds, PMS

Change of scene with standardisation of different funds by SEBI. Now all Asset Management Companies (AMC) / Mutual Funds Houses will have to pursue the following standardisation only :

| Equity Oriented Funds |
|---|
| Investments in Equity (stock market) based instruments. |

| Hybrid Funds |
|---|
| Combination of Equity (stock market) and Debt (fixed Income) based instruments. |

| Debt Funds |
|--|
| Investments in Debt based (bonds, govt. securities) instruments. |

Equity – Mutual Funds, PMS

Types of Equity Mutual Funds

| Sr. No. | Equity Scheme & Underlying Assets |
|---------|--|
| 1 | Large Cap |
| | (Min. investment in Equity 80% of Large Cap Companies) |
| | *Large Cap - 1st - 100th Company in terms of full market capitalization |
| 2 | Large & Mid Cap |
| | (Min. investment in Equity 35% of Large Cap Companies & 35% of Mid Cap Stocks) |
| 3 | Focused Fund |
| | (Scheme focused on the number of stocks maximum 30) |
| 4 | Multi Cap |
| | (Min. Investment in 65% Equity across Large Cap, Mid Cap & Small Cap) |
| 5 | Mid Cap |
| | (Min. Investment in 65% Equity across Mid Cap Companies) |
| | *Mid Cap - 101st - 250th Company in terms of full market capitalization |

Equity – Mutual Funds, PMS

Types of Equity Mutual Funds

| Sr. No. | Equity Scheme & Underlying Assets |
|---------|---|
| 6 | Small Cap |
| | (Min. Investment in 65% Equity across Small Cap Companies) |
| | *Small Cap - 251st Company onwards in terms of full market capitalization |
| 7 | Dividend Yield Fund |
| | (Scheme should predominantly invest in dividend yielding stocks) |
| 8 | Value Fund |
| | (Scheme should follow a value investment strategy) |
| 9 | Contra Fund |
| | (Scheme should follow a contrarian investment strategy) |
| 10 | Sectoral |
| | Equity – FMCG |
| | Equity - Pharma & Healthcare |
| | Equity – Banking |

Equity – Mutual Funds, PMS

Types of Equity Mutual Funds

| Sr. No. | Equity Scheme & Underlying Assets |
|---------|---|
| 11 | Index Fund |
| 12 | Exchange Traded Fund |
| 13 | ELSS (Eligible for deduction U/s. 80 C of the Income Tax Act) |
| 14 | Thematic |
| | Equity – Technology |
| | Equity – Infrastructure |
| | Equity – International |
| | A. USA |
| | B. Euro |
| | C. Asia |
| | D. Global |

Equity – Mutual Funds, PMS

Types of Equity Mutual Funds

| Sr. No. | Equity Scheme & Underlying Assets |
|---------|---|
| 15 | Equity – Others |
| | MNCs |
| | India Gen Next |
| | Natural Resources & New Energy |
| | India Consumer |
| | India Lifestyle Fund |
| | Diversified Power Sector |
| | Rural India |
| | Transportation and Logistics |
| | Export and Other Services |
| 16 | FOFs |
| | (Minimum Investments in the underling Funds-95% of Total Assets) |

Equity – Mutual Funds, PMS

Types of Hybrid Mutual Funds

| Sr. No. | Hybrid Scheme & Underlying Assets |
|---------|--|
| 1 | Balanced Hybrid Fund |
| | (Equity = 40% to 60% , Debt = 40% to 60% & No arbitrage) |
| 2 | Aggressive Hybrid Fund (old Balanced Fund) |
| | (Equity = 65% to 80% & Debt = 20% to 35%)(% of Equity on Fund Manager Model Based) |
| 3 | Equity Savings Fund |
| | (Min. 65% Equity Equity related instruments of total assets & min. investment in debt 10% of total assets. Hedged & unhedge to be stated in the SID) |
| | (Mostly 30 to 65% Equity & 35 to 70% Debt) |
| 4 | Dynamic Asset Allocation or Balanced Advantage |
| | (Equity/debt that is managed dynamically) |

Equity – Mutual Funds, PMS

Types of Hybrid Mutual Funds

| Sr. No. | Hybrid Scheme & Underlying Assets |
|---------|--|
| 5 | Conservative Hybrid Fund |
| | (Equity = 10% to 25% & Debt = 75% to 90%) |
| 6 | Hybrid Multi Asset Allocation |
| | (Min. allocation of at least 10% each in all three asset classes.) |
| 7 | Arbitrage Fund |
| | (Scheme following arbitrage strategy in equity & equity related instrument 65% of total assets.) |
| | (Taxation till 1 year 15% Above 1 year 10%) |
| 8 | Retirement Fund |
| 9 | Children's Fund |

Equity – Mutual Funds, PMS

Equity Mutual Funds

- ✓ Each Asset Management Company (AMC) have different approach, towards the investments.
 - **Growth approach** – High PE (Expensive) stocks.
 - **Value / Contra approach** – Turnaround stocks – less expensive but uncertain.
 - **Sector approach** – putting larger stress on some sectors.
 - **Concentration** – Some stocks & sectors get bigger bets.

Equity – Mutual Funds, PMS

Equity Mutual Funds

- ✓ Make an investment allocation in foreign funds (US based).
- ✓ Diversification is the key to success of any investment portfolio.
- ✓ Indian investor should start looking at investing in mutual funds investing in foreign stocks (particularly US based).
- ✓ US as a country, US as an economy and US companies as global leaders are going to be a force to be reckoned in times to come.

Equity – Mutual Funds, PMS

In times to come, rather than, just making investments in mutual funds, it is very important to build an Investment Portfolio and reviewing it from time to time.

Equity – Mutual Funds, PMS

Equity oriented Portfolio Management Services (PMS)

- ✓ Investment in a portfolio of Equity shares in the name of the investor.
- ✓ Taxation happens on each sale of equity shares.
- ✓ Different choice of portfolio option and portfolio managers available.
- ✓ Minimum investment Rs. 25 lakhs.

Equity – Mutual Funds, PMS

Major difference of PMS with Mutual Funds

- ✓ PMS portfolio unimpacted by inflow & outflow of other investors.
- ✓ Limited restrictions on fund management.
- ✓ Selection of PMS – Manager and Portfolio option is very important. Broking Houses, Asset Management Companies (AMC), Individual Fund Manager act as fund manager.

Fixed Income – FD, Debt Funds, Bonds



Fixed Income – FD, Debt Funds, Bonds

Fixed Deposits

- ✓ Attractive investment opportunity for investors taxed in lower tax slabs.

Entities like HUF, Wife, Son, Daughter, Father, Mother etc.

- ✓ Fixed Deposits from top quality business conglomerates and robust business model offer safety.

Fixed Income – FD, Debt Funds, Bonds

Fixed Deposits

- ✓ Rate of return much better than Bank Deposits with no dilution on safety aspect.
- ✓ Fixed rate of return for long period of over 5 years.
- ✓ Smarter option than bank deposits. Bank margin gets converted to our additional fixed deposit return.

Fixed Income – FD, Debt Funds, Bonds

Debt Funds

- ✓ Offers options to invest from a time frame of 1 day to 5 / 10 years in Debt based instruments.
- ✓ Long term appreciation by investment in Debt based Mutual Funds, but can be liquidated any time after completion of exit load period.
- ✓ Tax advantage of long term capital gain after 3 years holding period.

Fixed Income – FD, Debt Funds, Bonds

Types of Debt Mutual Funds

| Sr. No. | Debt Scheme & Underlying Assets |
|---------|--|
| 1 | Debt - Overnight Fund |
| | (Securities having maturity of 1 day) |
| 2 | Debt - Liquid |
| | (Securities having maturity of upto 91 days) |
| 3 | Debt - Ultra Short Duration Fund |
| | (Modified Duration = 3 to 6 Months) |
| 4 | Debt - Low Duration Fund |
| | (Modified Duration = 6 to 12 Months) |
| 5 | Debt - Money Market Fund |
| | (Securities having maturity of upto 1 year) |
| 6 | Debt - Short Duration Fund |
| | (Modified Duration is Upto 1.5 Years) |

Fixed Income – FD, Debt Funds, Bonds

Types of Debt Mutual Funds

| Sr. No. | Debt Scheme & Underlying Assets |
|---------|--|
| 7 | Debt - Floater Fund |
| | (Modified Duration is Upto 1.5 Years) |
| | (Minimum investment in floating rate instruments - 65% of total assets) |
| 8 | Debt - Corporate Bond Fund |
| | (Modified Duration is Upto 1.5 Years) |
| | (Min. investment in corporate bonds 80% only in AA+ & Above Rated Corporate Bonds.) |
| 9 | Debt - Credit Risk Fund |
| | (Modified Duration is Upto 1.5 Years) |
| | (Min. investment in corporate bonds 65% & investments in AA & below rated Corporate Bonds .) |
| 10 | Debt - Short Duration Fund |
| | (Modified Duration is More Than 1.5 Years) |

Fixed Income – FD, Debt Funds, Bonds

Types of Debt Mutual Funds

| Sr. No. | Debt Scheme & Underlying Assets |
|---------|---|
| 11 | Debt - Floater Fund |
| | (Modified Duration is More Than 1.5 Years) |
| | (Minimum investment in floating rate instruments - 65% of total assets) |
| 14 | Debt - Banking & PSU Fund |
| | (Minimum investment in Debt instruments of banks, Public Sector Undertakings, Public Financial Institutions- 80% of total assets) |
| 15 | Debt - Medium Duration Fund |
| | (Modified Duration = 3 Years to 4 Years) |
| 16 | Debt - Medium to Long Duration Fund |
| | (Modified Duration = 4 Years to 7 Years) |

Fixed Income – FD, Debt Funds, Bonds

Types of Debt Mutual Funds

| Sr. No. | Debt Scheme & Underlying Assets |
|---------|--|
| 17 | Debt - Long Duration Fund |
| | (Modified Duration = greater than 7 Years) |
| 18 | Debt - Long Duration Fund |
| | (Modified Duration = greater than 7 Years) |
| 19 | Debt - Gilt Fund |
| | {Minimum investment in Gsecs- 80% of total assets (across maturity)} |
| 20 | Debt - Gilt Fund with 10 Year constant duration |
| | (Minimum investment in Gsecs- 80% of total assets such that the Macaulay duration of the portfolio is equal to 10 years) |

Fixed Income – FD, Debt Funds, Bonds

**Tax Free Bonds of Govt. of India
undertaking –**

**an attractive investment option for
investors taxed at highest Income
Tax Rate.**

Fixed Income – FD, Debt Funds, Bonds

Tax Free Bonds

- ✓ The interest received in these Bonds is completely Tax Free in the hands of the investor.
- ✓ Tax Free Bonds were issued by Govt. of India undertaking like :
 - * Power Finance Corporation (PFC),
 - * National Highways Authority of India (NHAI),
 - * Rural Electrification Corporation (REC),
 - * Housing & Urban Development Corporation (HUDCO) etc.

Fixed Income – FD, Debt Funds, Bonds

Tax Free Bonds

- ✓ Tax Free Bonds suggested for investment have a residual maturity period of 9 years, 11 years, 14 years, 16 years etc.
- ✓ Tax Free Bonds are not available in the primary market by IPO.
- ✓ Investment in Tax Free Bonds have to be made by acquiring these bonds by re-sale only.

Fixed Income – FD, Debt Funds, Bonds

Tax Free Bonds

- ✓ The rate of return on these bonds is 5.63% (04/10/2019), which is completely Tax Free and known as YTM (Yield To Maturity).
- ✓ YTM (Yield To Maturity) is the return on investment, which takes into consideration, based on the fact that, on maturity, the investor would get face value against the market value paid at the time of buying the Bonds.

Fixed Income – FD, Debt Funds, Bonds

Tax Free Bonds

✓ Yield to maturity at different pre Income Tax Rates:

| | | |
|----|---------------------------|-------|
| A) | At 31.20% Income Tax Rate | 8.19% |
| B) | At 20.80% Income Tax Rate | 7.11% |

✓ Comparison with 5 Year Bank Deposit Rates of following Banks:

| | | |
|----|----------------|-------|
| 1) | SBI | 6.25% |
| 2) | Bank of Baroda | 6.25% |

✓ Conclusion : The Yield on a Govt. of India backed Tax Free Bond is better by 1.94% than Fixed Deposit of top PSU Banks.

Fixed Income – FD, Debt Funds, Bonds

Tax Free Bonds

✓ Very attractive investment option for :

Investors who invest in Bank Fixed Deposit

&

Investor who are taxed in higher tax rates of 30% plus surcharge.

&

who want to get fixed rate of interest for long period of 9 years, 11 years, 14 years and even for 16 years.

Fixed Income – FD, Debt Funds, Bonds

Perpetual Bonds

- ✓ Perpetual Bonds are bonds issued for a tenure which is “Permanent”.
- ✓ These bonds have “Call Options”, so the issuing company (bank) can redeem them on the call option date.
- ✓ The interest rate (Coupon) on these bonds is fixed, but in case of insufficient profits, interest payment can be missed (not paid).

Fixed Income – FD, Debt Funds, Bonds

Perpetual Bonds

- ✓ The interest on these bonds can be paid out of reserves (profits of earlier year), provided the balance sheet of the bank is strong enough.
- ✓ Returns of these bonds (YTC – Yield to Call)

| Sr. No. | Name of security | YTC |
|---------|---------------------------|--------|
| 01 | 8.50% State Bank of India | 8.06% |
| 02 | 10.5% Indusind Bank | 10.34% |

Real Estate



Real Estate

Investments in Raw Real Estate like urban land, agricultural land etc.

- ✓ Better chances of appreciation.
- ✓ Challenges in taking care / safe keeping of this investment.
- ✓ Agricultural income is exempted from tax.
Agricultural income is included for rate purposes in computing the total tax payable.

Real Estate

Capital gain on sale of agricultural land

| | |
|---|---|
| Gain on sale of Agricultural land situated beyond the below limits | Not considered as a Capital Assets U/s. 2(14)(iii), hence exempted |
| <u>Population of a city / town etc.</u> | <u>Arial Distance</u> |
| 10,000 to 1,00,000 | 2 kms. |
| 1,00,000 to 10,00,000 | 6 kms. |
| Above 10,00,000 | 8 kms. |

Real Estate

Investments in finished Real Estate like residential building, apartments, shops, offices etc.

- ✓ Chance of limited appreciation as general oversupply.
- ✓ Scope of letting it out. Only structured, corporate letting out possible. Price paid for real estate should be its price not as a multiple of its rentals.
- ✓ Depreciation in the value of asset.

Real Estate

Development of infrastructure in the country, changing the Real Estate demand – supply scenario

- ✓ **Development of road network. 12 under construction super Expressways. 65000 kms highways to be constructed by 2022.**
- ✓ **Development of Public Transport systems. 10 existing + 8 under construction Metro Rail projects, Electric bus systems in 11 cities, 25 million Ola and Uber rides per day.**
- ✓ **Development of other infrastructure like water, drainage, electricity, telecom network etc.**

Real Estate

Other factors impacting Real Estate

- ✓ Demand for Real Estate propelled by unaccounted money on a decline.
- ✓ RERA making the project execution more and more structured.
- ✓ Funding option for Real Estate becoming very limited, leading to general glut in the Real Estate market.

Unit Linked Insurance (ULIP)



Unit Linked Insurance – (ULIP)

Insurance (cum Pension Plan)

- ✓ Unit Linked Insurance Plan (ULIP) in its improved form with very low cost comparable to mutual funds.
- ✓ Insurance cover, at least 10 times, of 1st year's premium, making all incomes from this plan completely tax free. The contribution every year are eligible for deduction U/s. 80 C.

Unit Linked Insurance – (ULIP)

Insurance (cum Pension Plan)

- ✓ Various investment options like Equity, Debt, Hybrid etc. available, as per the investor's need and can be switched within the option, without tax implication. This mechanism ensures a very good return at the time of maturity.

Systematic withdrawal is allowed after 5 years, monthly systematic withdrawal can work as a Pension Plan.

Unit Linked Insurance – (ULIP)

Insurance (cum Pension Plan)

- ✓ Five year pay is compulsory.
- ✓ Policy can continue after 5 years, if policy holder desires.
- ✓ Partial withdrawal of 20% of Fund Value is allowed, after 5 years.
- ✓ Fund value or Insurance amount, whichever is higher, is receivable at the time of death.

Investment and Income Tax suggestions



Investment and Income Tax suggestions

- ✓ Interest free loans can be given, to Wife, HUF, Son, Daughter, Parents who can earn interest income themselves.

Interest bearing funds should not be used to give interest free loans.

- ✓ Expenses incurred to earn tax free incomes are disallowed. Sec. 14 A of the Income Tax Act. Maintain separate set of accounts for Professional & Personal activities.

Investment and Income Tax suggestions

✓ Gifts to the extent of Rs. 50,000/= is exempted.

Gifts from relatives without any upper limit is exempted.

Relative means :

- In case of an individual
 - (A) Spouse of the individual.
 - (B) Brother or Sister of the individual.
 - (C) Brother or Sister of the spouse of the individual.
 - (D) Brother or Sister of either of the parents of the individual.
 - (E) Any lineal ascendant or descendant of the individual.
 - (F) Any lineal ascendant or descendant of the spouse of an individual.
 - (G) Spouse of the person referred to in items (B) to (F).
- In case of a Hindu Undivided Family, any member thereof

Investment and Income Tax suggestions

Gifts to HUF

- ✓ From its members : Tax free in the hands of HUF, but income derived by the HUF on such gifted amount shall be clubbed to the donor.
- ✓ From non members : Taxable in the hands of the HUF, beyond Rs. 50,000/-. No clubbing provision is applicable.

Investment and Income Tax suggestions

Gifts from HUF

✓ To its members : Taxable in the hands of recipient.

To non members : Taxable in the hands of recipient.

✓ Gift from a HUF is void or voidable ?

Investment and Income Tax suggestions

- ✓ All Income Tax cases of scrutiny for the F.Y. 2019 – 20 are to be conducted by E – Scrutiny process only.
- ✓ Certain specified types of cases will be out of the purview of E – Scrutiny.
- ✓ Personal attendance of the assessee is required where books of accounts/evidences are to produced or any statement is to be recorded in respect of the assessment. Where an assessee demand personal hearing to explain his case where view is taken against him.

Message on Equity investments

The way to make money is to invest in Indian equity, if you believe in India Growth Story.

If you don't find a way
to make money
while you sleep,
you will work untill you die.
- Warren Buffet



Message on Equity investments

**"WE DON'T HAVE TO BE
SMARTER THAN THE REST.
WE HAVE TO BE
MORE DISCIPLINED
THAN THE REST."**



Allocate serious money to Equity only if you have mindset to see a serious depreciation of portfolio and still stay disciplined.

Message on Equity investments

**"In the short run,
the market is a
voting machine,
but in the long run
it is a weighing machine."**

- BENJAMIN GRAHAM



When to sell or book profit ?

- When you really need money.
- Your state is such that you can no more see depreciated portfolio.
- You are dependent on a fixed income.
- Sell high and Buy low sounds good, but does not happen.

Message on Fixed Income

- Fixed Income investments are not bad, they give a lot of peace & comfort to some minds. This is more valuable than returns.
- We should always be watchful of net of tax return.
- Do not compromise on credit quality (safety) to get better returns.
- Plan which option that suits me the most and I should invest through which entity of my family.

Message on Real Estate

- One should have the best Real Estate that he can afford which he / she can use.
- Do not create Real Estate flab.
- Next generation not interested in Real Estate management.
- Do not clutter with small Real Estates.
- Real Estate have done exceptionally well in turnaround situations. Thereafter it is just organic growth.

Message on Insurance

Buying insurance can't change your life; instead it prevents your lifestyle from being changed.

An illness can wipe up an entire family's savings that they have saved for decades by the medical bills.

You will not turn bankrupt because of buying insurance but you will cause your loved ones to turn bankrupt if you don't.

- JACK MA -



- Investment in Real Estate.

- Investment in Profession.

- Investment with Partners.

do not mean anything on sudden demise. What matters...

- Investment in Financial Assets.

- Insurance cover.

Message on Taxation

**We all wanted
to go to heaven
without dying**

Disclaimer

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