Build a core portfolio With the economy on a sound footing, stock markets are poised to increase your wealth over the long haul. Where should you look for growth? By Krishna Gopalan

In the good old days, most old-timers used to invest in the 'Blue Chips', i.e., in companies that were very big in size and strong financially, and with large stock market values. People relied on the stability of these big companies and their steady increase in profitability. Most of their investments have paid off. Their holdings have increased manifold, and dividends have compounded handsomely.

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NEWS ROUND-UP

Even today, there's reason to embrace long-term optimism in equity investments. Morgan Stanley India released a strategy report "India Strategy-Road to 50k" outlining how and when the Sensex could reach 50,000. "Corporate earnings are increasing and balance sheets are in good shape. Companies have huge cash reserves and a large number of them are under-geared," points out Ridham Desai, Managing Director, Morgan Stanley India Securities Private Limited, co-author of the report. It states that the BSE Sensex could take almost 13 years to reach the 50,000 mark from its current level. "If the assumptions are optimistic, the period to 50K shrinks to under 10 years," the report adds.

"For investors in today's market, there is not much option but to think long term," says Nilesh Shah, Chief Investment Officer, Pruicici Mutual Fund. In his opinion, long term means a three-five year time frame, though Shah is quick to clarify that this varies with the objective. "If a person is 35 years old today, long term for him could be 60 years," adds Shah

Rakesh Jhunjhunwala/Chairman/Rare Enterprises

"For the Sensex, 50,000 mark in 13 years appears pessimistic"

ON INVESTING: It's a factor of earnings and valuation. The market is looking good and I do not think P/E multiples are necessarily unsustainable

ON THE SENSEX: This will depend on earnings, which, in turn, will depend on economic development and interest rates. To me, for the Sensex, 50,000 mark in 13 years appears pessimistic

ON LONG TERM: It's important to have a long-term view. I look at long term as at least 3-7 years

ON STRATEGY: Always invest in the business model of any company. For me the reason for optimism is earnings growth

drivers

It is interesting to go back a little into the past-around a decade-to make a few comparisons. Take a sector like automobiles, for instance. An investor who had put in his money on a stock like Maruti is not as well placed as one who had invested in Hindustan Motors. In a sector like it, an investment in Infosys has yielded far greater returns than that of Silverline

Technologies or Pentamedia. Over the last few years, out of 88 companies with a market capitalisation of over Rs 500 crore then, all but five have yielded positive returns. Some of the names are familiar household names (see The Wealth Creators). Their business models changed as these companies scaled up in size. Citing the case of a changing market, Shah points out that Tata Steel in the mid-90s was trading as a Tata Group company. "It trades as a steel company today," he says.

Checklist for the Long Run

Corporate earnings are increasing and balance sheets are in good shape

For investors, longer the horizon, the lower the volatility

Look for global cues. India is highly correlated to the global markets and is affected by it

Investors need to spend quality time in identifying and studying companies

Ensure you invest in a sustainable business model of growing companies

Spread your eggs over a basket of stocks to spread the risks of equity investments

But, remember, the market is unpredictable in the short run. "Yes, investment in equities is sometimes fraught with uncertainty. I always take a long-term view and that is anywhere between three-seven years," says well-known investor Rakesh Jhunjhunwala. He is quick to add that there is definitely a level of comfort in today's markets. "2015 could be a horizon for the investor, though the question to be asked is 'when I will need the money?'," he thinks.

For now, India is linked to the global market. "The Indian markets are highly correlated to the global markets and to that extent, India is affected by what takes place globally. Also, our dependence on portfolio flows is quite huge," says Desai of Morgan Stanley. In other words, even a small reduction in portfolio flows coming into India could have a pretty serious impact on the domestic stock markets. But more new investors will increase the levels of interest in the markets as well. Large contributions from this will come from households. "Over the next 10-12 years, there could be inflows as large as $200 billion from households into equities,"

predicts Desai.

Where will the growth for companies come from? Morgan Stanley's report points out that for India's top 30 companies (these are those that constitute the BSE Sensex), revenue growth will exceed GDP growth. In that context, the growth story over the next few years could well continue to be the big story investors are looking for.

Cherry Picking

But how should you cherry pick in a market like this? That could well be the easiest question to ask but the most difficult one to answer. The trick lies in identifying companies with robust business models. "There are a couple of factors that need to be looked at. The investor will have to look at areas like the quality of management and the possibility of wealth being shared with the stakeholders," says Shah. That, of course, is easier said than done as it requires investors to spend quality time in identifying and studying companies.

Those tracking the business are unanimously of the opinion that the story often is in deciding the soundness of a company over a long period. "The strategy is to invest in the business model of a company," says Jhunjhunwala. Clearly, a couple of questions need to be asked about any company and Shah puts it down to just two basic ones. "An investor will need to answer if a company will be in existence after 10 years. Secondly, he will need to see if it will make more profit in 10 years than it does today," he states.

Occasionally, nasty surprises could spoil the party and investors need to watch out for them. "Returns from the stock markets are never secular. They are either front-ended or back-ended," warns Shah. Again, for an investor looking for stocks for the long haul, patience is the key.

That apart, the issue is what stocks or sectors could be potential blue chips. "Over the next 13 years, I am very bullish on agriculture. There are major plus points like large upsides from here, investments going up and increasing levels of transparency in farming," says Desai. With the story in this sector barely unfolding, there seems to be some serious play that is waiting to unfold in agriculture. According to Desai, infrastructure too is interesting though it is expensive. "The consumption story too is looking good and in the short term, offshoring looks the most attractive," he maintains.

Morgan Stanley thinks there are a couple of key advantages in India's favour that are the key long-term value drivers for equities. Among them are India's macro story, the demographic advantage and a robust capital market infrastructure. Desai, himself, is of the opinion that Indian companies are largely under-invested and there is a lot more that can be done.

The Indian structural story for the long haul remains intact. The fiscal situation is improving, there's a steady demographic change that is driving demands for goods and services. Companies are increasing productivity and improving the efficiency of capital. Infrastructure spending is picking up, and that is the key driver of a sustained growth in the economy.

Therefore, favour the large cap companies in the next decade over other

companies. They are a play on outsourcing, infrastructure and consumer demographic changes taking place in the economy.

Companies like Reliance Industries are investing in new businesses in the retail space, whereas Larsen & Toubro is growing in scale and size that is unparalleled in the construction and engineering space. Infosys has already proven itself in the offshoring business model evolving from just a vendor supplying code to value-added services such as consultancy. Look for core industries where India has a sustainable advantage over the long-term (see 10 stocks for 2020).

Spread your eggs over a basket of stocks to spread the risks of equity investments. Over time, there could be newer blue chips in the market. All you need is patience to weather the unpredictable nature of the markets. And you'll be fairly surprised that achieving satisfactory results in the market was a lot easier.

Bond With An FMP

Looking for steady returns with a lower tax incidence? A fixed maturity plan is just right for you.

By Shalini S. Dagar

If you are looking for a fixed income investment, which locks in your returns but almost assures you of, well, tax-free returns, consider fixed maturity plans (FMPs). For those bracketed at the top end of the tax spectrum, there's little that can be done, as there aren't too many investments that come with tax breaks. But fixed maturity plans of maturities, say 14 to 26 months, are tailored just right for a tax-free status.

FMPs have varying maturities ranging from as little as 15 days to as long as five years. They are similar to fixed deposits offering a fixed return on an investment, very much akin to a bank fixed deposit. FMPs use the mutual fund structure to aggregate investor funds and then invest the funds in instruments that have similar tenures that match the duration of the fund. For example, a 26-month FMP will invest in securities that mature in the same period. These investments are made in fixed-income bills like government bonds, money market instruments such as treasury bills, certificates of deposit and commercial papers, including corporate bonds.

Benefit With Indexation

Inflation-adjusted cost of assets may reduce your tax incidence. Essentially, indexation adjusts the acquisition cost of an asset for inflation during a given period. The sale price minus the adjusted cost of acquisition gives the capital gains made by the sale of asset. Securities that are held for less than a year are treated as short-term capital gains and hence are taxed at the slab-rate applicable to the individual. However, securities held for more than a year are taxed at the long-term capital gains tax rate, which is 10 per cent without indexation benefits or 20 per cent with indexation. An individual can choose the more beneficial

option.

The Income Tax department notifies an inflation index every year (available on www.incometaxindia.gov.in). The cost inflation index for 2002-03 was 447, whereas for 2004-05, it stands at 480. You get the inflation adjusted cost by dividing the index value for the year of maturity by the value for the year of purchase, which in the above case results in an inflation index-1.0738. When you multiply this with the initial amount invested, say Rs 10,000, your cost inflation adjusted price works out to Rs 10,738. If you redeemed the FMP for, say, Rs 11,000, your gains work out to merely Rs 262.

In some years when the inflation impact has been high-a strong likelihood this year as well-the adjusted cost of acquisition could rise over your realisations. You then make a capital loss. Then there's no tax incidence on the investor. Still better, "you can adjust the capital loss against other capital gains or carry it forward to the next year".

The Game Plan

So, what makes them different from a bank fixed deposit? They fall under a different head of income when tax is being computed, and therefore, the differential tax treatment. In bank deposits, the interest income is taxed under the head of income from other sources, whereas the redemption proceeds of FMPs are taxed under capital gains.

What makes FMPs particularly relevant at this time of the year (just short of the financial year close) is the possibility of increased benefits of indexation-which gives the investor the tax benefit of an additional year. Hence, one sees many products being launched at this time of the year with a maturity of just over a year or two years. These products make use of indexation (see Benefit with Indexation) to provide handsome returns to the investor. And in cases when the rise in inflation has been particularly steep, it could well be no tax (see Advantage FMPs). "While interest from a fixed deposit will be taxed at the normal rates, gains arising from the redemption of a 13-month FMP will be taxed as long-term capital gains at a reduced rate of 20 per cent, which, if suitably timed, could be further reduced through multiple years indexation," says Amitabh Singh, Tax Partner, Ernst & Young, explaining the rationale of FMPs. Agrees Dhirendra Kumar of Value Research, a mutual fund tracking firm: "It is (FMP) a superior fixed income investment vehicle due to its tax efficiency."

Even when an FMP's tenure is less than one year, the tax efficiency is retained as it pays a lower dividend distribution tax resulting in a higher net yield as against a fixed deposit with a similar maturity rate. A retail-hni investor saves almost 22-23 per cent tax when compared to a fixed deposit, even without the double indexation benefits.

So, while FMPs could rank better than bank fixed deposits in returns, what are the

risks and the downside? For one, the exit option is expensive with loads ranging from 50-100 basis points to deter premature withdrawals. As Kumar of Value Research says, "The real compromise here is liquidity." Another possible downside is the credit risk-quality of the assets in which the FMP funds are invested. If the FMP invests in lower quality paper for higher yields, there's always a risk of default. Besides, by the nature of the product, there are no guarantees on returns.

Notwithstanding these constraints, FMPs make investment sense at this time of the year. The returns on 3-month and 13-18 month FMPs have turned attractive given the tight liquidity constraints. The Reserve Bank of India further hiked the cash reserve ratio, making money dearer and driving up rates. "The tight liquidity situation has led to rates of around 9.25 per cent for 3-month FMPs and around 9.50 per cent for 15-month FMPs recently," says Ritesh Jain, Fund Manager (Debt), Kotak Mutual Fund. "Given such attractive rates, retail investors' interest has perked up in FMPs."

Beat The Inflation Blues

Rising prices eat into your purchasing power and threaten to erode your wealth. Here's how to hedge yourself.

By Clifford Alvares

Here's a startling truth-Rs 1 lakh will be worth a shade over Rs 37,500 after 20 years at a 5 per cent inflation rate. The average inflation rate the Reserve Bank of India targeting is 5 per cent. But at 6.5 per cent levels of inflation, your money is worth Rs 28,379 after 20 years. Inflation has recently soared to these levels. And, if the worst happens, and inflation hits around 8 per cent, your purchasing power drops by a whopping 78.5 per cent. The value of your Rs 1 lakh shrinks to merely Rs 21,454.

"Over the next 10-12 years, there could be inflows as large as $200 billion from households into equities" **Ridham Desa**i/MD/Morgan Stanley India Securities

If you are still not worried about inflation, it's time you start worrying. In fact, it's particularly important for investors to keep a tab on inflation. That's because it eats into the purchasing power of money and, over the long run, that's not the recipe for wealth creation. Even a mild inflation rate can be damaging to fixed income securities. Most investors, however, hardly recognise how really damaging inflation can be to their portfolios. Most people know what Rs 1 lakh can buy now. Most also know that it's likely to shrink in value and will be worth far less down the years. But the truth is far staggering than assumptions.

Adjusted Returns

But despite the threat of inflation, most investors are happy with only a fixed-income portfolio. The chances of losing money (inflation-adjusted) in a fixed-income portfolio are far higher than, say, investing in a stocks portfolio. That's because in a fixed-income portfolio, investors get very low real rate of return (see Bank on the

Real Return). Not surprisingly, most investors are caught unawares over the long haul and barely manage to make both ends meet.

What investors should focus on is real returns. The higher the real return, the better an investor is placed to fight in the economy. Real return is calculated by reducing the nominal interest rate (which is the interest rate on your deposit) by the inflation rate in the economy. As of now, inflation rate is hovering around 6.1 per cent, and the nominal interest rate at 9 per cent, so the real rate of return works out to 2.9 per cent.

What's Real Return?

To make the best out of any investment, focus on making the maximum real returns. Essentially, a real return is the nominal return on an investment after reducing the value due to the result of inflation. For example, if you have invested in a 9 per cent bond for one year and the inflation rate is hovering around 6 per cent, your real rate of return is 3 per cent (9-6=3).

Real rates of returns are extremely important. Asset prices move up because of inflation and for you a real return shows just how much you have been able to keep ahead of the pack. Inflation eats into the purchasing power of money. If it's ahead of the nominal returns on your investment, then your investment is losing money.

Return on investment 9
Less: Inflation rate 6
Real return 3
Illustrative example

Consider the more damaging aspects of this real interest rate. Assume you have invested Rs 1 lakh in a deposit for 20 years that compounds at monthly rate. After 20 years, the deposit will balloon into Rs 4,66,095. But add back 5 per cent inflation and the value of that amount is merely Rs 1,85,686. At 6 per cent, it's worth just Rs 1,53,620. In reality, you have made just Rs 53,620 in a 20-year period.

The truth is that inflation can make even the best of returns look meagre over the long haul. Therefore, it's necessary to target inflation-beating assets and incorporate them into your portfolio as well. Assets that rise concurrently with inflation are best placed to keep your wealth intact. Capital invested in a fixed income bond does not appreciate in value. But stocks, on the other hand, have the potential to increase in value, much faster than inflation rates.

Therefore, investors must target to cross a threshold level of inflation in their investment planning. As the standard of living improves, inflation is expected to hit investors far more than many can anticipate. What investors must also plan for in their finances is to anticipate the inflation rate of the economy. At times, inflation rate has even crawled past the 10 per cent mark. But an assumption of around 6 per cent inflation over the next eight-to-10 years could be a good goal.

Stay Ahead

Not many assets can beat inflation comfortably. Real estate has historically tended to move along with inflation, but over the last five years, the asset values have soared beating inflation by miles. Gold, on the other hand, too, has moved along with inflation many a time, but has managed to keep ahead of inflation by a reasonable margin, thanks to the investment and consumption demand it commands. In fact, gold is looked at as a store of value and a good hedge against currency depreciation, which is why it's probably a good investment to have in your basket of inflation-beating assets.

Since January 2000, an investment in gold has returned 11.4 per cent, and after adjusting it for inflation, the returns are a reasonable 6.4 per cent per annum. But your best bet over the long haul is stocks. Over the same period, an investment in the Sensex soared by 14.6 per cent. But the real return has been higher in stocks by a whopping 9.6 per cent. Consider this, the investment of Rs 1 lakh in stocks at a return of 14.6 per cent per annum turns into Rs 18,21,744 in 20 years. But after 20 years, the amount will be worth Rs 6,86,596, which is about 4.5 times more than investing in a fixed income investment.

Not surprisingly, most savvy investors have a reasonable mix of stocks in their portfolio. Stock markets usually increase in value sufficiently enough to compensate investors for the erosion in the purchasing power of money. But in the short run, stocks could fail to beat inflation if a particular year or a few years turn out to be bad for stocks in general. In those years, bonds provide better returns and hedges. If you can manage to hold out during those periods and accumulate more stocks by investing regularly and balancing between equity and debt, it makes a perfect recipe for building wealth.

In The Line Of Safety

Your home is your biggest asset. Here's how to protect it from some common physical disasters.

By T.V. Mahalingam

When Rohit Papria returned home one warm evening in April 2006, he found most of his Rs 1.25 crore home in suburban Mumbai charred beyond recognition. The culprit was an open electrical circuit board which had shorted out and caused a fire. Papria estimates that he lost property worth Rs 35 lakh in the fire while refurbishing his house cost him 25 lakh. "I was lucky. If my neighbours hadn't intervened at the right time, my whole house would have been destroyed," he says. If that's the kind of bill you do not want to foot, read on.

If you think that keeping buckets of water within reach is enough to save your costly flat, it's time to have a rethink. Because that's what Papria thought, till a 'minor electrical malfunction' turned most of his house into a barbecue. Today, most high-rises in metros are protected against fires, especially ones caused by electrical short circuits. Says Hafeez Contractor, a prominent architect in Mumbai: "Gone are the days when you would have a fire like the one shown in the movie Towering Inferno. Most reputed builders today use fire retardant paint. In addition,

fire detection sensors and water sprinklers are installed in lobbies and stairways of high-rise buildings." He also adds that high-rises have covered electrical circuits and the chances of a fire are pretty limited. But for older buildings, there's not much insulation, which is why you must get your building or home inspected regularly for any glitches.

Fight the Fire

For starters, your home can have smoke detectors and water sprinklers

Don't just use any other paint, but only fire retardant paint

Keep fire extinguishers handy and easily accessible

Ensure your home has emergency exits or is not cluttered

Resist the Quake

You can install special dampeners in your home

Use specified earthquake-resistant building material for your home

Repair the walls as well as the roof of your home or building

Have an architect go through the structures of your building periodically

Trip the Power

Install electric circuit breakers in every room in your house

Do check the electrical grounding in your home is connected

Don't overload electrical sockets and plug points

Don't install electrical points near water connections

The Need for Protection

House construction materials have soared in the last few years, so you need additional money to rebuild or refurbish your house

Replacing damaged equipment could take time and money

What's more, insurance premiums can get cheaper for houses that have proper safety measures

Another important aspect of fire safety is the installation of fire extinguishers in common areas like lobbies and stairwells. "If you visit most apartments in Mumbai, you will invariably find a small fire extinguisher with the security guard who sits 10-20 floors away. And often that extinguisher is not enough to put out even a camp fire. Builders also often close corners by cutting down on fire exits and other basic amenities. That can be costly," says an architect who did not want to be named. So, one should be careful about the kind of fire extinguisher one uses. Using the wrong kind of fire extinguisher can be disastrous. For example, using a water-based fire extinguisher to douse an electrical fire can cause a major electric shock. But fires are not the only hazards that are capable of damaging your property.

Quake-proof too

A recent study by IIT Bombay revealed that Mumbai is on shaky ground, literally speaking. The study revealed that the potential earthquake threat is higher for Mumbai and some parts of western India than specified in 2002 by the Bureau of Indian Standards (BIS). The study also suggested that the city's seismicity standards need to be upgraded and stronger quake forces be considered while structural designs are being drawn up for buildings.

It's a sobering thought for owners of costly real estate, especially in the high-rises of Mumbai. Industry watchers say that a further 50 high-rise buildings, with 40 or more storeys, are likely to come up in the near future. Even though most high-rise buildings in Mumbai claim to be 'earthquake-resistant', some people think that's not just enough. "The term earthquake-resistant by itself does not have any meaning," says Sandeep Shah, Director, Taylor Devices (India) which sells earthquake protection devices. "Earthquake protection of buildings is categorised into three groups-fully operational, immediate occupancy and life safety," says Shah. Buildings like monuments, hospitals and other vital installations fall under the first category (fully operational).

The second category of buildings (immediate occupancy), on the other hand, has minimal non-structural damage and no structural damages are safe for occupancy even immediately after a major earthquake. These buildings have 'dampeners' which act as shock absorbers for the building. The last category (life safety) is buildings which may not collapse during an earthquake, but will have to be demolished and rebuilt. Unfortunately, most buildings in India fall in this category. In fact, almost 59 per cent of our country is susceptible to earthquakes.

"All buildings built before 2002 do not match minimum earthquake protection standards and are dangerous during an earthquake as they are likely to collapse. A large number of such buildings exist in Mumbai but they can be seismically upgraded by using dampeners," says Shah. For an unprotected building to be upgraded to the minimum standard of life safety, the cost would be in the range of Rs 50-75 per sq. ft. On the other hand, if the building is to be upgraded to immediate occupancy levels, the costs could run up to the region of Rs 150-200 per sq. ft. That may not be exactly cheap but is a worthwhile investment on your flat worth a couple of crores. Installation of dampeners is neither time-consuming nor do you have to move out when installation work is in progress. However, if you reside in a flat, it is not possible to quake-proof your apartment alone. That would be akin to reinforcing only one card in a house of cards.

Meanwhile, do a careful inspection of your structures for any cracks or have an architect check them once in a while. Get your electrical installations checked regularly as well. A small step could potentially avoid losses running into lakhs, especially if you are sitting on costly real estate.

NEWS ROUND-UP

Cash on your Card

Credit cards are luring you with cashback offers. Are they good?

By Nitya Varadarajan

Well, if you are a bigger spender on your credit card, then cashback offers are for you. The only hitch is that you have to get familiar with the credit card concept and understand the minute statements of accounts with a need to keep tabs on the cashback.

"The tight liquidity situation has led to rates of around 9.25 per cent for 3-month FMPs" **Ritesh Jain**/Fund Manager/Kotak Mutual Fund

"Gains from a 13-month FMP will be taxed as long-term capital gain" **Amitabh Singh**/Tax Partner/Ernst & Young

On the face of it, the offers are exciting as banks tie up with merchants and service providers to give you the best deal. For instance, the Standard Chartered Super Value Titanium Card provides some benefits on petrol and telephony bills. HDFC Bank's Value Plus card comes with a cashback scheme that refunds 5 per cent on railways, hospitals and medical stores. Whereas Citibank's cashback gold card offers 5 per cent on air and rail travel, subject to a maximum of Rs 20,000 per annum.

ICICI Bank is offering cashback up to 100 per cent on your transaction on any bank's charge slip. If you make two transactions on your card above Rs 2,000, then you are eligible for the cashback. Usually, the cashback is about 1-3 per cent, which is added back to your statement in the next month.

Cards with Cashback
Citibank Gold card offers cashback of 5 per cent on air and rail travel. But there's a cap of Rs 20,000 per annum The Standard Chartered Bank offers 5 per cent cashback on phone bills and some benefits on petrol bills, but there is a cap of Rs 6,000 p.a. HDFC Value Plus offers 5 per cent on railway, hospitals and medical stores, which can go up to 10 per cent during festivals HDFC Woman's Gold card offers cashback of 5 per cent on

monthly household purchases

ICICI cards offer a minimum cashback of 1 per cent up to a maximum of 100 per cent

But before you sign up, look at the merchants and service providers the bank has a tie-up with. Essentially, it means that the merchant establishment will keep a card swiping machine of the bank in its premises and you have to have the same bank's charge slip.

But a cashback offer may not be a good idea at some retailers. Retailers have to pay up a service charge of around 2.5 per cent to the card-issuing merchant bank. Some retailers may add this back to your bill. So when you get cashback of 2.5 per cent in your statement, you may have already paid for it. Where the retailer does not levy any additional service charge on the customer, cashback proposition works just fine.

Certain special cards offer 5 per cent cashback, though you may need to closely check the services that are eligible for the higher cashback. If you are a frequent flyer, you would prefer a card that offers cashback facilities on air tickets. However, check whether it will compromise on your frequent flyer miles. A card that combines frequent flyer miles, attractive insurance, discounts on hotels and reward points may be better suited for some frequent flyers. These benefits could be more rewarding than just cashback on air tickets.

Cashback cards may have a 'cap' on the amount of cash refunded in a year. Also check if the cashback cards come free of annual charges-your gains may be lower if there is an annual fee. Besides, only certain categories of goods may have reward points. And lastly, some of the cashback cards do not come with any reward points.

Global asset management companies are vying for a share of the growing fund business.

It's destination India for global fund managers. As the equity culture expands drawing more new investors, far away foreign fund houses are scouting for a space in the Indian fund industry. JP Morgan Asset Management said that it received regulatory approval to enter the mutual fund business in India. It will soon launch its first fund-a diversified equity fund. JP Morgan has over $1,000 billion (Rs 44 lakh crore) in assets under management (AUMs) in 39 locations around the world.

On the other side of the competitive divide, American International Group Inc. too received regulatory approval to set up a mutual fund business in the country. This company, too, will soon launch its asset management operations through AIG Global Investment Group Mutual Fund. For the global fund managers, India is the draw of the season. Says Martin Porter, Head of Global Equities and Multi-asset Group: "India is one of the world's strongest secular growth stories."

For the mutual fund investors, that would add more to his list of choices. Already, 36 fund houses are operating in the country managing more than Rs 3,39,662 crore of investors' assets. But the entry of foreign fund houses is expected to usher in new technologies and innovative products and a different investment management

process for investors. Both the fund houses (JP and AIG) are already familiar with the Indian environment and have operations in other financial businesses apart from asset management. More foreign fund houses are said to be planning to launch India operations.

Mutual funds in India are seeing a boom in business and AUMs are growing at a phenomenal clip. AUMs surged by 63 per cent from Rs 2,07,979 crore to Rs 3,39,662 crore till January last year. For the foreign fund houses, that's the real draw.
-Clifford Alvares

Soaring Higher
Loans are getting dearer for the retail borrower.

For the retail borrower, home and car loan rates just got costlier. ICICI Bank, the country's largest home financier, hiked interest rates on floating rate home loans from 9.5-10.5 per cent and for fixed rates from 11.5-12 per cent. This move came soon after the Reserve Bank of India announced a hike in the cash reserve ratio that pulled out over Rs 14,000 crore of loanable funds in the banking system. Although the interest rate hike may seem meagre, it has increased by around 10 percentage points. The move has increased the household mortgage budget of retail borrowers.

Another key player in home loans, HDFC, said that it is raising its home loan rates by 50 basis points by the end of this month or early March. HDFC currently offers a fixed rate of 11 per cent and 9.5 per cent on floating rates. PSU banks, too, are expected to follow suit with rate hikes of 50-100 basis points.

Car loan rates have increased in the recent round of rate hikes by about 50-100 basis points. Overall, the banks' cost of funds increased with an additional increase in the zero-interest CRR (cash reserve ratio). This has put pressure on the banks' net interest margins.

Given the strong growth in the economy and the surge in deposit interest rates, the interest rates are expected to harden further in the coming months. Floating rate borrowers will face the brunt of the hike. Fixed rate borrowers, on the other hand, can heave a sigh of relief as their rates are locked on at earlier rates