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NFO period – January 15, 2015 to February 13, 2015

This product is suitable for investors who are seeking*

- to generate capital appreciation for over 1100 days i.e. tenure of the fund
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- high risk (BROWN)

*Investors should consult their financial advisers if in doubt about whether the product is suitable for them.

Note: Risk is represented as:
Investors understand that their principal will be at:

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The Power of Vision

At The Finapolis, we firmly believe that there is only one resource that can make any nation a place brimming with ideas—the quality of human resource. What set humans apart is our ability and potential to better our own lives, and decide the course of our destiny. There is absolutely nothing that is beyond human imagination. Human enterprise has the power to find solutions for every problem facing humanity.

Almost every day, during the elections you must have heard the passionate political rhetoric from the privileged classes about saving the ‘Idea of India’. We thought why not invert the paradigm to yield a more positive and hope-filled term called ‘An India of Ideas’ that is more reflective of the aspirations of a young nation.

Unleashing the spirit of enterprise is what will make this land of ours an India of Ideas. Entrepreneurship offers everyone—whether he or she is based in Bangalore or Bastar—to plug into a global world, create employment and wealth. It makes irrelevant the lack of conventional natural resources or the alignment of other favourable external factors.

For this special issue of The Finapolis, we turned to a wide array of leaders from India Inc. to share their thoughts on how we can channel the positive impulses of an overwhelmingly young population towards making a nation that is not just prosperous but also vivacious, entrepreneurial, buzzing-with-ideas, and an innovator that can be a global leader in countless areas.

These are thought leaders who have in their own ways contributed immensely both in the realms of ideas and execution for a better India. There’s a mix of experienced and young voices from the new and old economy. You’ll find almost every writer is gung-ho about India’s demography and the youth bulge. In a world where knowledge increasingly matters more than natural resources, this is the one asset that can truly make India a nation of ideas.

I’m pretty sure you will immensely profit from these provocative essays. I certainly did.

Do send us your thoughts on how best to make ours an ‘India of Ideas’. We will carry some of your contributions both in the magazine and our digital version www.thefinapolis.com
HOW CAN I SAVE TAX WHILE GROWING MY HARD EARNED MONEY?

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- Investment in equity and equity-related securities to form a diversified portfolio
- High Risk (Brown)

*Deduction from total income in a financial year (Under Sec 80C of Income Tax Act, 1961). There is no guarantee of returns/ income generation in the scheme. Investors are advised to consult with their tax advisor before investing. *Investors should consult their financial advisors if in doubt about whether the product is suitable for them. Note: Risk may be represented as: (Blue): Investors understand that their principal will be at low risk (Yellow): Investors understand that their principal will be at medium risk (Brown): Investors understand that their principal will be at high risk
We are digital

With the proliferation of smartphones and tablet devices, reading habits are slowly but surely changing. We understand the importance of giving readers a cross-platform choice to access the magazine. The Finapolis is now available in a digital avatar as well via a global publishing platform such as Magzter and Indiamags. Besides allowing you to read on the go, the digital version offers an enhanced reading experience. It also eliminates delivery delays. You can download the digital magazine on the first day of every month. Go to www.magzter.com, Indiamags.com or Rockstand mobile app, search for ‘The Finapolis’, sample some pages of the digital magazine, and buy a subscription through your netbanking or credit card account. A one-year subscription for The Finapolis digital costs only Rs 540. You need to have a device that runs on Apple’s iOS, Android or Windows 8 operating system. Do let us know what you think of the digital experience by writing in to feedback@thefinapolis.com

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Simply Nice

I have subscribed to this magazine after reading a copy purchased over the counter. I find the articles very timely and the language simple enough for laymen in finance, like myself, to understand the concepts. I especially liked your cover story on gold that asked investors not to lose faith in the yellow metal led by the current economic situation. The article has strengthened my view that gold will retain its safe haven image and price will correct with time.

Often, we forget or oversee small details when making big investments. In that sense, I find Rajiv Raj’s articles on loans and property investment very insightful and giving the right kind of advice, which are simple pointers yet easy to be overlooked, at the right time for various situations that come up especially while dealing with expensive and big investments like realty.

- Praveen Kulkarni, Noida

Perfect Gift

The story on gifting ideas published in your magazine titled Gift a Future is a wonderful piece of idea that has come at the right time. The article is a perfect New Year gift to people who are unaware of the financial options they have that they can give as gifts to their loved ones. Cash still rules the roost in our country, which I agree is a necessary evil. But the choices presented in the article have opened up the financial world to me apart from presenting me with an opportunity to make a difference to someone while I make a gifting. My aged parents are delighted with my gesture towards ensuring stable income for them this New Year through a gift of a mutual fund subscription as mentioned in your article. Thank you!

- Sushil Ravi Kumar, Patna

Splitting Concepts

I am a novice at stock investing and have just about started to learn the ways of the market. I completely freaked out when suddenly, the absolute price of a share of State Bank of India that I hold dropped to less than Rs 300 from Rs 2920 just the previous day! My broker told me that the stock had split, but I simply felt cheated. The article on stock split in your magazine titled Split Story came as a silver lining and explained the concept in a simple and understandable manner with examples. I now get it that a stock split only leads to a notional change in the total holding value.

- Vinita Menon, Allepey

Living On The Edge

Your story titled Take Off The Rose-Tinted Glasses struck a chord with me. Analysts have indeed been predicting such absolutely crazy levels for our markets that it has in reality led to led only to confusion and concern for wary investors like me. Even seasoned investors such as Rakesh Jhunjhunwala going over the top with call for 1,25,000 levels, that too for the Nifty, makes me sit on the edge wondering what is a decent level and what is the right way to play the market? I am glad that at least one magazine published the flip side, warning investors against being carried away by the song of the mermaids that these analysts and so-called market readers are singing.

- Vishnu Patel, Ahmedabad
TAKE ADVANTAGE OF INDIA’S MANUFACTURING GROWTH. INVEST NOW.

Birla Sun Life
Manufacturing Equity Fund
(An Open ended Manufacturing Sector Scheme)

**NFO Opens:** January 13, 2015  **NFO Closes:** January 27, 2015

India is set to be the next manufacturing superpower with the government’s focus now on the sector. The government is aiming at a GDP contribution of 25% from manufacturing (Source: National Manufacturing Policy). With this, India is set to witness a manufacturing dream run. What will happen if this becomes a reality?

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**Birla Sun Life Manufacturing Equity Fund (An Open ended Manufacturing Sector Scheme)**
This product is suitable for investors who are seeking:
- long term capital growth
- investments in equity and equity related securities of companies engaged in manufacturing sector
- high risk (BROWN)

*Investors should consult their financial advisor, if in doubt about whether the product is suitable for them.

**Note:** Risk is represented as:
- (BLUE) investors understand that their principal will be at low risk
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 Mutual Fund: Birla Sun Life Mutual Fund  Asset Management Company/Investment Manager: Birla Sun Life Asset Management Company Ltd.
CIN: U65910MH1994PLC090811  Registered Office: One Indiabulls Centre, Tower - 1, 17th Floor, Jupiter Mill Compound, B41, Sompalli Bopal Marg, Elphinstone Road, Mumbai - 400013.
Oil Is Well

After the surprise rate cut by RBI, here is another sliver of joy. The oil marketing companies slashed retail prices of petrol by Rs 2.42 and diesel by Rs 2.25 a litre for consumers. This move finally opens the tap for the benefit of the slump in international crude, to below $45 a barrel, to trickle down to the Indian consumers.

On a cumulative basis since August, petrol prices have been cut by Rs14.69 per litre, while diesel rates have been cut Rs 10.71 per litre in five revisions.

The government has however made a very smart move by simultaneously hiking excise duty on these fuels by Rs 2 per litre each. This is the fourth hike since November.

Market analysts see this as a good decision as the twin move would help government earn additional revenues of about Rs 10,500-12,000 crore, while helping consumer retail inflation slide. It is also expected to curb import demand for petrol products, reducing the oil import bill, feeding into shrinkage in fiscal deficit. Reduction of over-recovery of oil marketing companies, currently estimated at Rs 5 per litre, is yet another bird that the government has targeted with the single stone.

While the current move comes at the right time as Delhi preps for the election, there is high possibility that fuel prices be altered further in the next review. Provided state governments do not tamper with the state levies, especially in the non-BJP state governments, the consumers stands to gain with more spending power. According to market observers, this could spur demand for two-wheelers and cars.

Remember that Petroleum Minister Dharmendra Pradhan had been under much pressure and criticised for not cutting rates despite nearly 4% fall in global rates since January 1. Responding to it, he told the media, “pricing was not in our hands” as both petrol and diesel have been deregulated. B Ashok, Chairman of Indian Oil Corp, had justified the decision not to revise rates earlier stating that oil firms were steeped with huge inventory which needed to be compensated.

Ashok told media that the drop in crude prices is cash loss for the companies. It has tremendous effect on their inventories. The crude that is being processed is the one bought months ago when international prices were higher, but the final product being sold is at lower rates. Hence, domestic price modulations need to be based on such factors and cannot be at par with the global drop.

“\(\text{We do about } 100\text{ billion a year in trade with India, which is a great improvement since I took office. But we do about } 560\text{ billion a year with China. That gives you some sense of the potential, both for the kind of growth that India might unleash and for greater trade between our two countries.}\)"

US President Barack Obama while addressing the US-India Business Council during his India visit.
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Baroda Pioneer ELSS'96
(An Open Ended Tax Benefit-Cum-Growth Scheme)

This product is suitable for investors who are seeking:
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- Investment predominantly in equity and equity-related securities
- High Risk

Investors should consult their financial advisers if in doubt about whether the product is suitable for them. Note: Risk is represented as:
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BARODA PIONEER MUTUAL FUND

Mutual Fund Investments are subject to market risks, read all scheme related documents carefully.
The seventh edition of Vibrant Gujarat kicked off at Gandhinagar in full glory and colour in the presence of Prime Minister Narendra Modi, piggy-backing on its resounding success from previous years. The biennial investors’ summit held by the government of Gujarat this year saw participation of large conglomerates and leaders from across the seas, signage of a over 21,300 Memorandum of Understanding (MOUs), and clocking lofty investments of about Rs 25 lakh crore in the state.

According an informal survey conducted by the US India Business Council (USIBC), the US business delegation attending the Vibrant Gujarat Global Summit itself may investment $41 billion in India in the next three-four years. Australian mining giant Rio Tinto’s CEO Sam Walsh said the group would add 30,000 jobs in diamond cutting industry in Gujarat. Hong Kong-based China Light & Power Holdings said it was planning a 2,000-Mw coal-based power plant in the state at an estimated project cost of Rs 12,400 crore and Welspun Renewables announced setting up solar and wind energy capacities in Gujarat for Rs 8,300 crore.

Back home, Adani Enterprises and US-based SunEdison will invest about Rs 25,000 crore to set up a solar park in Gujarat that will create 20,000 new jobs. Reliance Industries chief Mukesh Ambani said his group would invest Rs 1 lakh crore in the next 12-18 months across businesses, and Kumar Mangalam Birla of Aditya Birla Group pledged investments of Rs 20,000 crore in the state.

Jet Airways’ chairman Naresh Goyal has pledged the entire 51% of his shareholding in the carrier to state-run Punjab National Bank. According to media reports quoting a regulatory filing with the BSE, Goyal has pledged 57,933,665 shares, valued at over Rs 2,600 crore, effective January 8 to PNB with a ‘non-disposal undertaking’. However, the company later issued a statement that non disposal undertaking is not technically a pledge.

Remember that last year, after the government allowed foreign direct investment (FDI) in aviation, Abu Dhabi-based Etihad Airways bought 24% stake in Jet Airways for around Rs 2,000 crore ($379 million). Aided by the discontinuation of its low-cost wing, JetLite, and sale of its loyalty programme (JP-miles) to Etihad, Jet Airways was able to cut losses to the tune of 95.7% at Rs 43 crore in the three months to September. This was seen as a tremendous achievement, though it came through one-time incomes, as the airline had reported a whopping Rs 999 crore net loss in the same period a year ago.

For the first time since 2012, Jet Airways reported a standalone quarterly net profit of Rs 70 crore recently.

Share price for the carrier closed at Rs 464.25 a piece on 13 January and slid down within the opening trades on 14 January to Rs 447. The company has a total market capital of Rs 5,273 crore, but a book value of -196.11.
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News Scan

Banking

The Kind Cut

It was indeed the case of the boy who cried wolf; only, the boy did make news when the wolf finally came. RBI chief Raghuram Rajan who has been holding off on rate cuts despite signs of economic improvement since May 2013, finally announced a 25 basis points cut in the repo rate. The repo rate now stands at 7.75% from 8% earlier. Cash reserve ratio (CRR) is maintained at 4%.

“Crude prices, barring geopolitical shocks, are expected to remain low over the year. Weak demand conditions have also moderated inflation excluding food and fuel, especially in the reading for December. Finally, the government has reiterated its commitment to adhering to its fiscal deficit target,” he added.

Rajan also assured that further policy actions will remain consistent and in line with the policy stance that the RBI has now taken. This could mean further cuts in the February 3 review, and possible changes to other rates too. Borrowing will now be cheaper and it is expected to boost investment in the cash-strapped sectors, working as a lever to put industrial production in gear for better growth.

The market erupted in cheer in opening trade that day with the announcement of the much-awaited rate cut. The benchmark stock index jumped the most in eight months, by nearly 450 points, led by banks and developers.

State Bank of India advanced the most since November to Rs315, up 3.45%, pushing the gauge of lenders to a record. Oberoi Realty surged the most in three weeks, pushing up the Realty index to a three month high. Maruti Suzuki at Rs3556 is headed for an all-time high.

Policy

Goodbye Planning, Hello NITI

The New Year sees a new dawn in the planning process to turn India into an economic superpower. The government scrapped the nearly 65-year old Planning Commission to pave way for the new NITI (National Institution for Transforming India) Aayog, to be headed by PM Narendra Modi himself.

The Planning Commission had been a bone of contention over the past year since Modi pledged to undo the organisation during his Independence Day speech. Established in accordance with Article 39 of the Indian constitution (part of directive principles of state policy), the Planning Commission formulates India’s Five-Year Plans, among other functions.

The NITI Aayog, established by a resolution of the Union Cabinet, will be a multi-tiered structure with a governing council that comprises the chief ministers of all states and lieutenant governors of the union territories and experts and specialists as the PM’s special invitees. Regional councils are to be set up on region- and state-specific issues. Prime Minister Narendra Modi will chair the institution and will appoint a CEO and a vice-chairperson. The revamped institution will serve as a government “think tank” with a mandate to provide strategic and technical advice on issues of national and international importance to the Centre and states.

Our tech-savvy PM tweeted out: “Having served as a CM in the past, I am very much aware of the importance of actively consulting the states. NITI Aayog does precisely that.”

“Through NITI Aayog, we bid farewell to a ‘one size fits all’ approach towards development. The body celebrates India’s diversity & plurality,” he tweeted.

The opposition parties are nonetheless calling it “fluff” and “gimmickry”. Congress spokesperson Manish Tewari was quoted by news media as saying, “If the government wants to greet people with fluff and not substance on the first day of 2015, then there is nothing more that can be said.” CPI (M) leader Sitaram Yechury termed the renaming of the Planning Commission as “aniti and durniti” (no policy and bad policy).
Apne pairon par khada ho raha hai

Mera Bharat bada ho raha hai

Young thinkers are bringing in a fresh wave of change, shaping a new India. We celebrate this wisdom and the spirit of newthink! For a new India. A better India.
India's financial sector has diverse goals to accomplish such as generating humongous capital to fund long-term growth, creating sophisticated and safe tools for a rapidly globalising corporate sector, providing more investment avenues to middle-class savers, and ensuring financial inclusion for a vast number of the unbanked.

Clearly, banks alone won’t be able to deliver on all these objectives. According to a report by Crisil, India needs out-of-the-box solutions to generate the money so needed for economic growth. According to Crisil estimates, just to build out infrastructure, India will need Rs 30 lakh crore over the next five years, while banks will need another Rs 5 lakh crore for their capital requirements till 2019.

This is why a vibrant corporate bond market has become an imperative. Raman Uberoi, Business Head - Crisil Ratings, Large Corporates & Corporate Affairs, said, “Innovation is a critical ingredient in developing bond market. Continuous innovations in the corporate bond market will eventually open the floodgates of capital for key sectors of the economy. It will enable infrastructure projects to take off, deepen the financial sector, and improve access to credit for SMEs.”
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EMPLOYMENT

Socially Insecure

There are nearly 100 million people aged over 60 in India today, and that number will triple to 300 million by 2050. In other words, every fifth citizen will be a sexagenarian compared with every twelfth now. The worry is that most of them will be financially insecure in their sunset years if a social security net doesn’t get built starting right now, cautions a study by Crisil.

And if a large number of the old end up having no pension by 2030, the government will have to bear the heavy fiscal burden of providing minimum sustenance to them. A multifold increase in pension coverage to the private-sector workforce is therefore an imperative.

“With the focus on India’s demographic dividend, the fiscal cost of ageing is not at the forefront of discussion. However, unless addressed, this cost can be onerous in coming decades,” said Roopa Kudva, Managing Director & CEO, Crisil.

Government employees joining after 2004 are covered under the defined contribution formula of the National Pension System; hence the government’s pension liability on account of these employees will decline to 0.7% of GDP by 2050 from 2.2% of GDP currently. The problem, however, lies in the private sector.

Therefore, the government will have to facilitate access to pension plans for a huge section of the private-sector workforce to avert fiscal stress, and it will have to complement this by incentivising retirement savings. “India is not the only country set to witness a steep increase in old-age dependency. Indeed, the proportion of its old people will be less than those of several countries and also the world average in 2030. But the rise from where we stand today will be steep – hence the need to act fast,” said Dharmakirti Joshi, Chief Economist, Crisil.
PROVIDING INSURANCE SOLUTIONS FOR ALL YOUR LIFE STAGE NEEDS
We take a look at the third quarter results of some companies and figure out what impact it will have on their share prices.

**TCS**

TCS’ 3QFY15 revenue stood at US$3,931mn, which was flat Q/Q in reported terms and up 2.5% Q/Q in constant currency (CC) terms. Reported USD revenue was slightly below analysts’ estimate. EBIT margin was in line with consensus estimates. Net profit rose 2.9% Q/Q to Rs 54.4bn, again in-line with consensus estimates. Revenue flat, below expectations: TCS posted flat revenue in 3QFY15, at US$3,931mn, while CC revenue was up 2.5% Q/Q. Volume growth came in at 0.4% Q/Q, while the IT major saw a 2.3% Q/Q improvement in pricing. Adverse cross-currency movements had a 250bps Q/Q impact on reported USD revenue growth, thus leading to flat USD revenue. From a vertical perspective, BFSI grew 0.3% Q/Q and telecom grew by a healthy 7.9% Q/Q. UK saw a 5.8% Q/Q decline in USD revenue, owing to continued weakness in Diligenta.

**Cyient**

Cyient’s 3QFY15 revenue stood at US$14.7mn, up by a solid 3.5% Q/Q. This was partly aided by some revenue that was originally budgeted for 4QFY15 getting realised in 3Q. EBITDA margin rose 19bps Q/Q, slightly below analysts’ estimate. Net profit rose 12.2% Q/Q to cross Rs1bn, 17.5% above consensus estimates. Revenue solid, but in-line adjusting for ‘borrowed revenue’: Cyient posted a solid 3.5% Q/Q rise in 3QFY15 USD revenue to US$14.7mn (analysts estimate US$12mn). This was aided by US$2.5mn revenue ‘borrowed’ from 4QFY15, which led DNO revenue to surge by 12.5%

**Bajaj Auto**

Bajaj Auto (BAL) delivered strong Q3FY15 performance with revenues and operating margins coming above street’s estimates. Its revenues grew 10.2% Y/Y (down 5.1% Q/Q), despite volume decline of 0.9% Y/Y and 6.7% Q/Q to -985k units. Its realization/vehicle improved by 11% Y/Y, mainly due to higher three wheeler contribution, higher export contribution and -3% depreciation of INR benefitting export realization. Company’s export realization/vehicle in USD terms rose 5.5% Y/Y due to better product mix. Its adj PAT fell 3.8% Y/Y & 10% Q/Q to Rs 8.07 bn (vs. our est of Rs 8.45 bn). EPS stood at Rs 27.9 in Q3FY15. Analysts expect stock to remain under pressure over near term until the meaningful recovery in domestic and export market is witnessed by BJA. Sharp Rupee depreciation is biggest upside risk.

**Wipro**

Wipro’s 3QFY15 USD revenue was 1.1% above our estimate at US$1,795mn, implying 1.3% Q/Q growth (3.7% in constant currency, or CC terms). CC growth was close to the upper end of its 2%-4% Q/Q revenue growth guidance. Wipro’s’ 3QFY15 IT revenue was US$1,795mn (up 1.3% Q/Q), 11% ahead of our estimate (US$1,776mn). CC revenue grew by a healthy 3.7% Q/Q and the IT major has out-performed both Infosys (2.6%) and TCS (2.5%) on this parameter. Weak rupee, cost control boosts margin, lower interest further drives PAT:
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The Business of Giving

The fifth edition of the World Giving Index presents philanthropic data from 135 countries over a five year period to 2013. The World Giving Index 2014 shows a welcome increase in the number of people giving their money, volunteering time and helping strangers. The US and Myanmar are tied at the first spot this year, while Sri Lanka ranks 9th and India ranks far behind at 69th despite the huge population.

China and India continue to dominate the list of countries with the largest number of people helping strangers despite below average participation rates.

India has the most people volunteering their time, with an estimated 186.5 million doing so. China only achieves fourth place on this list.

Source: Charities Aid Foundation
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Note: Risk may be represented as:
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In the course of the epic election battle of 2014, you would often have encountered the term ‘Idea of India’ by those sitting in English news television studios squaring-up against Narendra Modi. The invocation of the term (also the title of a book by Sunil Khilnani about India’s bumpy ride post Independence) was to create the bugaboo that even a democratic change of government meant an existential threat for India.

In a somewhat related context, talking about why India is a stable emerging economy and its twin Pakistan teetering on the edge of becoming a failed state, editor and author MJ Akbar, under whose editorship I once had the privilege of working, says that the idea of India is stronger than the Indian, and the idea of Pakistan weaker than the Pakistani. The idea of India is a tremendously brave idea, especially in 1950 when it was framed and codified.

Akbar adds that India is an ancient land but a modern idea based on four principles: democracy, equality and freedom of faith, gender equality, and economic equity where the poorest of the poor feel they are part of the rising national narrative.

As we celebrate the 66th anniversary of the Indian Constitution, fearing for the ‘Idea of India’ is akin to thin-skinned fundamentalists who worry about their religion getting weakened by the odd act of blasphemy. This is perhaps the best time to re-imagining India, with confidence.

As a stable and functioning democracy that’s nearly 70 years-old, the debate about the ‘idea of India’ is more or less settled. What we need to move towards is the ‘India of Ideas’ — a country that can channel the positive impulses of an overwhelmingly young population towards making a nation that is not just prosperous but also vivacious, entrepreneurial, buzzing-with-ideas, and an innovator that can be a global leader in countless areas.

India today finds itself at a delicate turn of its history. It has nearly been a quarter of a century since serious and epochal economic reforms process was initiated in 1991. It helped us come out of the socialist stupor and forced us to become a part of the global mainstream.

Today, however, we seem to have completely cashed out all the benefits that economic reforms 1.0 had to offer us. We can hardly afford to sit on our laurels. There’s plenty of work to do as a nation; millions of hungry mouths to feed; and more challengingly, meet the growing aspirations of young Indians who comprise 65% of our 1.2 billion population.

For this special issue of *The Finapolis*, we turned to the captains of India Inc. who have in their own ways contributed immensely, both in the realms of ideas and execution for a better India. There is a mix of experienced and young voices from the new and old economy. You’ll find almost every writer is gung-ho about India’s youth bulge. In a world where knowledge increasingly matters more than natural resources, this is the one asset that can truly make India a nation of ideas. The articles are arranged by the alphabetic order of the names of our contributors. I hope you find their views as fruitful and engaging as I have.
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The year 2014 has been widely viewed as a landmark year for India. This is so, even as economies across the globe have been grappling with political as well as economic turmoil and uncertainty. There is much hope riding on our new central government with a majority in the parliament and a promise of a focused growth agenda. It could not have come at a more opportune moment. The future of India holds tremendous potential. A recent PricewaterhouseCoopers report estimates that India would become the third largest economy in the world by 2030. To put this in perspective, in 2013, India was pegged as the tenth largest economy. The rapid rise of India has been driven by a combination of factors, including a growing middle class, a vibrant start-up ecosystem, and a young and dynamic population. The country has a large and growing market, which makes it an attractive destination for businesses looking to expand.

Adi Godrej

Adi Godrej is the Chairman of Godrej Group, one of India’s most trusted brands with revenues of $4.1 billion. Today, Godrej serves 600 million Indians through its consumer goods, real estate, appliances, agri and many other businesses. The company has a strong presence in the Indian market and is known for its high-quality products and services. Godrej is committed to sustainability and has made significant investments in research and development to create innovative solutions for its customers. The future looks bright for Godrej, and the company is well positioned to continue its growth and success in the years to come.
of the Indian economy with its young work force is tipped to be the big driver of this growth.

In order to accelerate growth that we all are aspiring for, a lot of work is needed on our policy framework front. The new government has started-off very well and has made major announcements in many different spheres; they have taken positive steps on FDI and on containing inflation in which they are helped by the fact that the international commodity prices have cooled down. Overall, the government has done a good job. It has improved the sentiment in the country and are taking steps to improve the ease of doing business in India.

This momentum should continue, rather, it should be accelerated. The government needs to constantly push for progressive measures. In my view, timely implementation of the GST, an open FDI policy, reduction in tax rates, land and labour reforms and boost to infrastructure would all come together to give the much-needed impetus to our manufactur-
Arundhati Bhattacharya

Arundhati Bhattacharya is Chairperson, SBI, India’s largest bank. She is the first woman to head SBI, ranked among the 50 most-valued banks in terms of market cap globally. SBI is also one of eight Indian companies to feature in the Fortune 500 list. With over three decades of experience, she has served in the bank’s credit, forex, treasury and retail operations

India has always been a land of ideas—be it in the field of inner sciences such as yoga or outer sciences such as physics, chemistry, medicine, shipping and metallurgy. Indian researchers have made significant contributions in numerous fields, ensuring that India remained an unchallenged global economic superpower—an exporter of technology— for nearly 1500 years, well documented in Angus Madison ‘Economic History of the World: A Millennium’s Account. The very idea of zero and infinity emerged from the domain of inner sciences which is today the basis of mathematics. Indians were the first to develop steel, and the famous Iron Pillar at Delhi is the longest rust-free sample of steel in the world; it has lasted fourteen centuries till date without rusting. Indian textiles have been on a legendary path since ancient times. The Greeks and Romans recorded extensive import of high-quality textiles from India that were considered precious items in those days. Shipbuilding and export was a major Indian industry until the British banned it in the 1800s. More recently, Indian scientists, by placing the Mangalyan in the Mars orbit in their very first attempt, demon-
strated the technological prowess of the Indian mind. Hence, to envision an ‘India of Ideas’, there is a need to overhaul the assessment of India’s intellectual potential. Are we meant to be a nation dependent on importing technology and intellectual property (IP) as we have been told very often, or are we meant to be a nation of exporters of technology and intellectual property as was in the past? These questions must be answered clearly to formulate a vision 2020.

**Enabling Factors**

Just like virus thrives in particular temperatures and humidity levels, a society to prosper on ideas requires certain enabling factors. The enabling factors include first of all, an education system that encourages free thinking both at the elementary level and at the advance level. Second, encouragement to the culture of entrepreneurship. Third, technology adaptation for dissemination of ideas and finally, a robust patent regime to recognise, reward and protect the innovator.

The education system at the primary and higher levels must be attuned to foster creative thinking. The system must be accessible financially. It is therefore very disheartening that education inflation CAGR in private final consumption expenditure is 7.5% since 2004-05. Thus, cost of education is increasing at a rate higher than growth in per capita income (roughly 6-6.5%). Besides affordability, there is an urgent need to revise the syllabi and align it with long-term strategic growth objectives of the country so that the education system is able to provide skilled manpower. Cost of education can be reduced if the education sector utilises and adopts new technology. It is estimated that going ahead, there can be a 95% drop in computer memory costs, reduction in raw data storage costs to 1/100th the current price, and a network efficiency increase by more than 200x. Hence, process power and data storage will become almost free; networks and the cloud can provide global access and pervasive education services.

The education system must also train minds to start their own ventures and encourage calculated risk-taking. SMEs have traditionally been a fertile ground for first generation entrepreneurs across many countries. The recent thrust in Budget 2014 to SME sector therefore is a welcome move.

Our education system must also sensitise students at the doctorate level about the importance of originality and to resist the temptation of plagiarism. At the same time, there is need to create awareness about IP rights and how to protect them. The office of Controller General of Patents, Designs and Trade Marks (CGPDTM) has taken many proactive steps in recent years to increase awareness in the Indian industry and among the citizens. During 2013-14, the office of CGPDTM conducted 28 awareness programmes, sent its officers as Resource Persons to 96 awareness programmes organised by World Intellectual Property Offices, Universities, etc. Such measures will definitely go a long way to create a solid base for a knowledge-driven society.

**The Way Forward**

For the next five years, our focus must be on the four enabling factors highlighted above. The usage of technology in higher education remains limited and must increase. Our system turns out nearly seven lakh science and engineering graduates every year. However, industry surveys show that only 25% of these are employable without further training. Today, a country’s abilities and resources to produce and generate new knowledge would be the only way to place it on top of the global power hierarchy. Hence, the need of the hour is to recognise that a sound economic growth model is ultimately the one that is based on a virtuous cycle of knowledge and innovation.
The EmployAbility Challenge

Ashish Chauhan

Ashish Chauhan is the Managing Director and Chief Executive Officer of BSE, India’s first stock exchange. An alumnus of IIT Mumbai, he is better known as the father of modern financial derivatives in India. At BSE, he has been responsible for bringing the fastest trading system in India with a 200 microseconds response time.

A time comes in the life of a nation for it to stand up and be counted among the comity of nations. In that sense, India is on the crux of achieving greatness. It will be a rare occasion when a large democratic nation rises on the world stage using non-violent means.

India at this juncture has many advantages. A scientifically and technologically trained youth is one of them. Over the past 20 years, India’s emphasis on high-tech and services has turned the youth in India towards making careers in sci-
ence and technology. In addition, India’s demographic advantage with more than half of its population under the age of 25 is a big plus. The youth is able to learn newer technologies and employ them in productive ways; older population of China, Japan, Europe and the US will find it difficult to work with newer technologies—be that in Information technology, Bio Sciences, Robotics, Nano Technologies or space technology.

India’s entrepreneurial culture is one of the best in the world today. The networks that finance young entrepreneurs in new technologies have come up over the last two decades. Many more incubators, angel funds, venture capital funds and private equity have become active and the financiers have also tasted successes. Role models of running business ethically have come up with people totally unconnected to traditional business families making fortunes using their skills, enthusiasm and connectivity to the world and that has increased confidence of the Indian population in doing business.

Given the way technology in different areas is developing at a rapid pace, I have firm belief that the progress over the next 20-30 years will be beyond what we have ever imagined. Newer technologies will create wealth and job opportunities that the world has not witnessed before. India, with its young populace and scientific bent of mind, is at the right place to take advantage of these opportunities.

For that, our young people need to be trained in the required skills and also inculcate values which motivate them to re-train and upgrade again and again. Newer technology cycles will be of much shorter duration. Reinvention will be the key.

In this purview, we also need to make doing business easier. As our Honorable PM told, “We need to move from red tape to red carpet”, businesses especially new age ones will create tremendous opportunities for job, wealth creation and growth for every citizen of India. It is estimated that by 2035, 70% jobs will be such that we have not even imagined about. Did we imagine, even 20 years ago, that a person sitting in India will be taking orders for McDonalds from US customers for instant drive in deliveries?

Opportunities are tremendous. As much as we take pride in our participatory democracy, we must aspire to make every one participate in job creation and wealth creation. How do we create basic infrastructure - roads, ports, airports, power plants, telecom lines, mobiles, housing, irrigation, schools, colleges, public places etc.? We have institutional frameworks. How do we make them work for the society and economic upliftment? India has a chance to become rich before it becomes old. How do we work systematically towards achieving these objectives?

India is a country which accounts for 2% land mass of the world and 16% of world population. Half of our populace is below age 25. As per estimates, on an average, 15 million youths will join the workforce every year for the next 20 years, which gives India a unique competitive advantage which also would be its biggest threat if India fails to create opportunities for its youth population.

The biggest challenge and opportunity for the nation is to create jobs—for me, India’s job for next 20 years is to create jobs.
next 20 years is to create jobs. For that we need to create an environment where Indian companies are able to grow and create more jobs, where SMEs find it easy to raise funds for their enterprises and where the youth is adequately trained to contribute and participate in the Indian growth story.

We need to create an environment where companies and entrepreneurs don’t fail just because of lack of access to funds and the youth don’t go unemployed due to lack of opportunities or lack of skill training.

These two areas that go hand-in-hand should be the focus area for the country for the next five years. While it is the Government’s role to create policies, the implementation and the benefits we derive of those policies would depend on the Indian institutions. For instance, the Indian banking sector and the Stock Exchanges need to play a major role in addressing the first concern, for enabling the Indian enterprises to grow, compete and succeed. BSE, in the past two years, has been able to get 79 SME companies to list; listing of SMEs enables them to raise funds from the public while giving investors a chance to become part of the success story if these ventures prosper. The SME market cap has already reached US$1.6 billion in a short period of two years. If things go well, we hope to have US$25 billion of wealth represented on the BSE SME segment within the next five years. The success of the BSE SME segment has prompted requests from PEs and new-age entrepreneurs to give the segment a new name that would reflect the aspirations of the market from this segment.

The way BSE is synonymous with capital markets over the past 140 years, BSE SME segment has become the largest market of its kind in India with more than 90% market share. Nurturing wealth creation in India for all shareholders—small and investors, PEs, VCs, angel investors, promoters, non-promoters—has been at the core of BSE philosophy all these years– to transform India into a country where everyone can partner with everyone else, irrespective of how much they want to invest, thus reducing entry barriers to investment.

Providing supportive conditions for investments such as e-IPO, market making, etc., have been some of the innovations the market-regulator SEBI has pushed for in recent times. These reforms will make Indian capital markets even more attractive for investors in times to come.

BSE, or any exchange for that matter, should be judged on how it helps India create more jobs, raise more funds and create more wealth for all its citizens, transforming India into a country where everyone can partner with everyone else, irrespective of how much they want to invest, thus reducing entry barriers to investment.

BSE has also helped set up an incubation cell within the BSE building to help promote entrepreneurs to develop their business models. We need to help thousands of such small entrepreneurs to get access to funds and training for them to succeed – for themselves, for their investors and for the employment they would generate if they succeed.

BSE has also taken leadership in setting up the BFSI Sector Skill Council to help train the youth in the BFSI sector.

A lot, however, still needs to be done to improve the employability of the youth and to provide them with opportunities of employment. BSE will continue to work in the direction of acting as a catalyst for job creation, skills creation, wealth creation and entrepreneurship.
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Mutual Fund investments are subject to market risks, read all scheme related documents carefully.
With 2020 just five years down the road, one would imagine we have a clear line of sight on the ‘ideas to be’ horizon. However, when it comes to ideas, I, for one, would not like to hazard a guess for the next 24 hours, let alone over the coming five years. Instead of crystalball gazing the possibilities of ideas that may come to be at the start of the next decade, it would be better served to focus on both the role and potential of ideas that would be crucial in taking us into 2020.

I have the good fortune of actually working in an ‘ideas business’ and on
numerous occasions, surprised, if not a bit overwhelmed, at the speed at which ideas are both born and die. We live in exciting times when a seed of an idea can reach and deliver on its potential in as little time as the life of a campaign.

In the world of ideas, the driving force is most often innovation. Innovation can be viewed as the application of better solutions that meet new requirements, unarticulated needs or existing market needs. This is mostly accomplished through more effective products, processes, services and technologies. Ideas are the seeds to these innovations and creativity is its expression.

Come 2020, the paradigm shift will be the focus on the business of ideas not just ideas for business... ideas that will be conceptualised and executed, managed and made available to not just companies and markets but to government and society too on an equal footing.

Come 2020, the paradigm shift will be the focus on the business of ideas not just ideas for business... ideas that will be conceptualised and executed, managed and made available to not just companies and markets but to government and society too on an equal footing.

At the national level, there is waste generated at so many levels. One of the key areas that require urgent tackling is hunger. In a country where roughly 190 million people continue to starve, you will be surprised to learn that roughly 33 million tonne of food was produced in excess last year. Data suggests that the main culprit is in fact food spoilage and not production shortage. This not only threatens India’s food security but is outright criminal. I believe that with technology and improved logistical systems, a plethora of ideas can be actioned to manage this problem.

Even at the local level, given the times we live in when there is a mobile application for everything perceivable from finding a carpenter to finding a date, why cannot there be more ideas that help manage and distribute food excesses from our homes and restaurants to people within the vicinity who are in the need? Now that is an idea worth pursuing.

At the social level, again, there is potential to ideate on solving so much of waste. Let’s take the wastage of our skilled but retired population. In India, around two-third of the population is below or close to 30, so does talking about a retired workforce sound off-the-mark? I think not. The problem is not just about lack of bodies, there is a wealth of skills, knowledge, experience and relationships that is going waste. To get a sense of scale, just the central government alone has around 1.75 lakh employees retiring from its rolls each year. I believe there is huge potential for ideas that better
If an idea can change your life; imagine what a floodlight of ideas can do for us and our nation

utilise this resource pool. Using the power of the internet, ideas could leverage this demographic to contribute in areas such as education, vocational training, mentoring, guidance and consultancy in a sustained and scalable manner. Ideas that enable and empower retired citizen to give back to society could be such a big game changer, especially for the under-privileged members of the society where there is scarcity of the access to education and knowledge.

Lastly, at the individual level, I am more excited, not so much for the brilliant ideas that will be at play in 2020, but more about the impact that it will bring, in empowering each one of us. Most if not all ideas should focus on efficiency, and by that measure, the direct impact of ideas would be the gift of time. Great ideas come from observations, pondering, musing, access to knowledge and other such pursuits. As with all things, so far time was the privilege of a select few while the vast majority spent it literally managing and coping with the business of daily life. As technology helps us get more efficient, we will definitely have more time on our hands. A society of individuals with more time on their hands will enable them to pursue their own interests, which will lead to a cascade of creativity... creativity that can empower and make available more innovations and ideas that benefit society as a whole. I believe that 2020 will see us transition from a nation of makers to a nation of thinkers and ideators. If these five years are to be ‘Make in India’, I would like for the next decade to be all about ‘Ideate in India’.

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Mutual fund investments are subject to market risks, read all scheme related documents carefully.
Indians today are full of hope for the future. That is the result of our electing a leader who is trusted, and in whom there is confidence that he will bring big changes. But the process of realising our hopes is not easy. It will require all of us to realise what we need to do and how we need to change, if our hopes are to become reality.

We need to understand that improvements and changes will not happen if we merely live off on the successes that we have had in the past. Certainly, successes have come our way in many areas, however it would be difficult to say that we have achieved as much as we could have or need to have. It is necessary to introspect and identify areas where we have potential to succeed, either as an individual or as an institution or as a country. Mistakes and experience are the best teachers in life, provided we are ready to learn from them. We then should analyse and identify the root causes of those failures and find the right course corrections for the future. We must resist the temptation to blame others and
consider what we could have done ourselves to have performed better.

When we attained Independence 67 years ago, the people of India had complete faith and trust in our political leadership. Over the years, this trust has eroded and hardly any politician is really respected at large today for what he or she is as a person. Respect is paid to the chair that a person sits on, not to the person. The Civil Services commanded great respect for many years because of their competence, integrity and fairness.

There has been a severe degradation of these virtues. Most business leaders too have, over the years, ceased to be looked upon as persons who can be trusted and respected. The public and the media, and often for valid reasons, don’t trust politicians, bureaucrats or businessmen. The political establishment believes that it cannot be seen to be helping industry and business grow and become more profitable. Our laws, processes and systems of implementing policies and projects are based on this distrust, and lead to delays and poor implementation. There is a huge gap between what is supposed to be done and what happens on the ground. The end result of this situation is that the common man has to bear the burden of high cost and inefficiently provided goods and services, including public services. If we are to realise our new hopes and dreams, all of us, especially those in politics, civil services and also the judiciary and business activities, need to build trust in each other and work in a manner that the trust gets stronger over time.

Many things have to change. The most important is perhaps the way the political processes of our democracy are funded. Transparency in that area would help to get away by use of money power or position. The investigative arms of the Government must be equipped to use technology to complete the work competently. The court processes have to finish much faster. There must be fear of quick and certain retribution if trust is to be created and respect for the law restored.

Apart from greater respect for law, the processes for better education and information to citizens about matters such as safe driving, cleanliness, littering and public health must be instilled school level up. The level of discipline in the country has to increase if we are to become a modern developed country. Meanwhile, importance of respecting legitimate rights of others has to be inculcated as progress requires teamwork.

India has the potential to become the most competitive place to do business if all our systems are based on trust, and that trust is respected through effective laws and their implementation.
The secondary markets have been performing well in the last one year. Domestic and foreign investors as well as Indian Corporate have shown tremendous confidence in the India growth story and the future of the Indian markets, although there are still some concerns about global factors that could impact us and on rupee volatility. So this is possibly the best time to pause and think of what are the next big steps that will give the Indian markets the next big push. Extensive efforts have been taken by the market regulator, SEBI and exchanges to increase retail penetration, use technology for financial inclusion and improve investor confidence by enforcing high standards of corporate governance in Indian companies.

We need to intensify some of these efforts to make the markets globally competitive. I would like to spell out some important steps which are necessary to increase depth and liquidity in the Indian markets:

- NSE has been providing a variety of products ranging from equity to derivatives, currency, debt and volatility-linked products to help investors meet their varying needs to hedge their market risks. NSE also has a large number of sectoral indices on which asset management companies have created suitable products like ETFs. The requirement was to create simple products in which retail investors

Chitra Ramkrishna

Chitra Ramkrishna is Managing Director and Chief Executive Officer, NSE, India’s largest bourse. She’s been with NSE since its inception in 1991 and is the first woman to head the NSE whose network stretches to more than 1,500 locations in the country and supports more than 2,30,000 terminals.
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can invest in low amounts with low risk—ETFs are ideal to meet this demand. NSE is making efforts to reach investors in tier-2 and 3 cities as well as smaller cities beyond the top-100 where investor appetite is still very limited.

- **Retail** penetration should be increased to 15 crores. This need not happen through equity or derivatives if investors don’t have the requisite understanding. Small investors can invest through MFs and ETFs.

- **Bring** retirement money into the markets. This move could prove to be a game changer because not only will it add to depth in the Indian markets, it will help retirees get much higher returns which will help them beat inflation.

- **Technology** must be used effectively to penetrate new places and ease end-to-end access to our market through different mediums, including mobile platforms and internet. Technology also helps in giving easy access to information which was earlier a cost or access barrier.

- **Make** the Indian markets as competitive as Asian markets like Singapore, to ensure that the onshore markets are attractive.

- **While** reforms in the secondary markets are critical, it’s equally important that there is revival in the primary market which has lagged despite the high returns that Nifty has given in the last one year (38% from Dec 13 to November 14).

   The SEBI chairman had recently announced that they are considering E-IPOs to bring down the cost and time involved in a public offer. This would be a path-breaking move and will benefit the entire market. SEBI recently narrowed the IPO window to maximum five days from the earlier bidding period of over 10 days, and has asked the companies and exchanges to ensure listing within five days thereafter. Besides, IPO investments have also been made simpler through the online route and now, allotments/refunds are almost immediate.

   To kick in the virtuous cycle in the primary market, one of the important elements to be addressed would be equity financing for the infrastructure sector. If infrastructure is able to raise capital from the market and is less dependent on debt, companies will also get the confidence of investors and the market. More primary market issuances by the sector could well lead the transformation of the Indian economy into a robust growth phase of primary market issuances.

   SEBI chairman has also emphasised on the need for companies to bring IPOs and offers for sale (an alternate mechanism to raise funds on the exchange) at the right valuation, and if companies keep these concerns of the regulator in mind and are conscious of making the right disclosures, we will see more confidence in the markets about these issues.

   The government’s initiative to set aside a percentage of shares for retail investors in divestment of PSUs is also a very good move to revive retail interest in good quality stocks. Retail investors are also getting a discount on the share price of public sector companies, and recent stake sales and the CPSE ETF have seen very good response from retail as well as institutional investors. The government recently notified that public shareholding in PSUs will be brought to 25% in all the public sector enterprises by August 2017, which offers immense opportunity to retail investors, domestic institutions, foreign portfolio investors and HNIs to participate in the public offers. With more policy reforms, a better earnings cycle and higher growth in the Indian economy, we will see good quality paper coming into the markets. We will see the Indian markets taking the next big leap with concerted efforts from government and the regulators.
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Harnessing Consumerism

KV Kamath

KV Kamath is non-executive Chairman of Infosys and of ICICI Bank. An alumnus of IIM, Ahmedabad, he began his career in 1971 at ICICI, and played a crucial role in transforming ICICI into a technology-driven financial services group and the first universal bank in India.

The Indian economy is at a critical juncture in its time in history. It is important to identify our biggest opportunities and work towards leveraging them. In my opinion, they are our demographic dividend, the emergence of a large consuming class, especially growing rural consumption, and the inherent need for infrastructure development in our country.

The first opportunity is India’s demographic that is in a sweet spot to support rapid growth in the country. We will become the youngest country in the world by 2020 with around 20% of the global workforce. That is, India will remain young while the world ages. India’s dependency ratio—the number of dependents per working person—is expected to stay low or decline at least till the next two decades. Falling dependency ratio translates to higher purchasing power, driving our growing consumption story, which brings us to the second opportunity. This is explained best by our rising per capita GDP which has grown from US$465 to US$1,500 within 2000 to 2013. A GDP per capi-
ta of US$1,000 is the threshold beyond which an economy sees increased affordability and aspirations for better lifestyle. This has tremendous implications for savings growth, consumption demand and the ability to finance investment. As affordability increased, retail consumers became the driver for demand in services. A third opportunity stems from the huge scope for investment in infrastructure. Large deficit in power, roads, transport, urban infrastructure, housing and such calls for huge investment outlay. Since this investment will be to satisfy existing demand and not artificially boost the economy, it is inherently sustainable in nature provided it is backed by adequate policy measures.

The post-liberalisation and reforms growth story in India was driven by knowledge-based industries like banking, IT and telecom among others. The services sector, led by these knowledge-intensive industries, witnessed a boom in the 1990s and has sustained through the 2000s. This growth trajectory is an anomaly to the usual development path of a nation where an economy transitions first from agriculture-led to being manufacturing-led, and as it matures further, to an economy led by services. India’s transition has so far been led by knowledge-intensive sectors as contribution of services to India’s GDP rose from 50% in 1990-91 to 67% in 2013-14. Rapid growth was driven by exponential advances in technology and rise in per capita income.

Advances in technology and connectivity have had a major impact in the way we interact, conduct business and manage finances. India has the second largest mobile user base and is close to having the second largest internet user base. Growth in connectivity through larger but lower-cost bandwidth and handheld devices with greater computing pow-
er and reducing costs have opened up new avenues for learning, created better access to information and has improved the livelihoods of small entrepreneurs, urban and rural citizens and farmers.

Corporate India, entrepreneurs and common people alike have leveraged opportunities presented by the large population, growing consumption and demand for better facilities, and innovated to solve local problems. An example is, ICICI Bank has about 19 million SB accounts where avg. balance may be just $1 per account and transaction values very small. It is challenges like these that are countered successfully using technologies—biometric authentication, mobile handheld devices—to carry out transactions in semi-urban and rural areas.

Innovation in India has ranged from sachet packing of shampoos to cater to the rural segment to provision of cash-on-delivery by e-commerce to overcome distrust involved with online shopping. Payment providers have introduced e-wallets to facilitate cashless transactions through mobile apps. The ubiquitous nature of mobile apps now provide options to perform transactions from ordering food to booking cooking gas to buying motor vehicles.

The focus on manufacturing as envisaged in ‘Make in India’ is poised to create a dual driver alongside the services sector. This has to be accompanied by a concerted focus on usage of technology.
A pioneering entrepreneur in the Biotech sector, Kiran Mazumdar-Shaw is the Chairperson and Managing Director of Biocon Limited. In 2010, she was among TIME magazine’s 100 most influential people in the world, and in 2014, Forbes magazine picked her as one of 100 most influential women in the world.

Angad Daryani, a 15-year-old from Mumbai, made headlines recently for building India’s first 3D printer. The young entrepreneur believes he can price it around Rs 20,000 ($335) which is a fraction of imported global brands that cost Rs 2.5-10 lakh.

Angad is testimony to India’s potential leadership in ‘Affordable Innovation.’

I believe India has many bright youngsters like Angad with simple yet brilliant innovative ideas that can enable affordable access to cutting edge technologies which can make life enhancing changes.

All we need to do is to provide these bright minds the right ecosystem to ideate and innovate. I do believe that only through new ideas can we bring about transformational solutions for the challenges that confront us.

Encourage A Start-Up Culture

The need of the hour is to promote a start-up culture in India. The practical, problem-solving approach adopted by startups can bring innovative ways to improve the way we live.

For a strong start-up culture in India we need a robust innovation ecosystem that relies on: ease of starting business, accessing capital and markets and mentors. Most importantly, we need a policy for ease of closing business. India should emulate the world’s start-up capital - Silicon Valley.

Thirteen-year-old Shubham Banerjee, an Indian-origin student living in California, was in the news recently for inventing a low-cost printer for the blind. Even more interesting was the fact that Shubham became the youngest entrepreneur to get venture capital after Intel Capital decided to fund his start-up Braigo Labs which would make these printers.
Create An Innovation Ecosystem

India too needs an innovation ecosystem that can help put in place a virtuous financing cycle: academia generates ideas, especially those based on science and technology, which are incubated to proof of concept through public and private funding and then taken to market through business intervention backed by venture funding and capital markets. To build a national innovation ecosystem, we first need to build a national narrative around science and technology.

In 5th century BC, the universities at Nalanda and Takshashila attracted scholars and students from distant lands. India gave the world the mathematical concept of ‘zero’ way back in the 9th century AD, revolutionising mathematics and setting the ball rolling for the emergence of our present day digital technology. The world was given a glimpse of India’s scientific capabilities when ISRO succeeded in putting Mangalyaan in orbit around Mars in its very first attempt. Described by the TIME magazine as one of the ‘Top 25 inventions of 2014,’ this project cost US$74 million, or a fraction of the money spent by other nations.

The need of the hour is to promote a start-up culture in India. The practical, problem-solving approach adopted by start-ups can throw up innovative ways with which to improve the way we live.

Investing in S&T

1. Science & Technology is of strategic importance to India’s future leadership.
2. Innovation is key to value-accrative growth and India needs to step up its investment in research and translational innovation.
3. There is urgent need to unleash the huge potential of our entrepreneurial energy by creating a virtuous cycle of invention and innovation that takes ‘ideas’ to the ‘market’.

This virtuous cycle involves three critical components:

1. **Academia** that discovers and invents new knowledge, new ideas, or new concepts;
2. **Entrepreneurs** who develop these ideas and concepts into “proof of concept”;
3. **Industry** that innovates these ideas and concepts into commercial products and technologies.

All three components need to be symbiotic to succeed and this cycle needs to follow a fiscal model that makes it self-perpetuating.

Academia needs public funding to pursue discovery and invention. Entrepreneurs need a combination of public and private funding to provide the critical risk and seed capital to translate concepts into “proof of concept”. Industry needs private funding from financial institutions, venture funds and capital markets to innovate and commercialise.

However, a financial cycle can only be sustained if there is monetisation at every stage. Academia needs to create intellectual property (IP) through discoveries and inventions that can be licensed to either entrepreneurs or directly to industry with royalty payments upon commercialisation. Entrepreneurs need to create value-added IP that can be licensed to industry with royalties upon commercialisation. Industry needs to monetise through successful commercialisation that enables royalty payment. Such financial ecosystem will set the wheel spinning.

In our knowledge-driven economy, innovation is the primary driver of progress. India’s ability to generate wealth and create social good will come to naught unless we monetise innovative ideas by unshackling our entrepreneurial spirit. For innovation to flourish, ideas must be funded and taken to market. Without capital, even the most transformative ideas can die before they take flight. Until we are able to create a funding-financing ecosystem, innovation in India will continue to be a far-fetched dream.

February 2015 | The Finapolis
Today, India stands at the cusp of a major change – a transformation that could lead to unprecedented economic growth paired with radical improvements in the country’s socio-political environment. Over the past two decades, India’s gross domestic product (GDP) has risen by more than $1 trillion, and in the process, bring millions of citizens out of poverty into the burgeoning middle class. This country’s target should not be less than $10 trillion in the next two decades.

A young India, with a large digitally-enabled middle class is seeking growth and change. India needs to work on building the skills and capabilities for this young India in order to drive innovation, otherwise we might risk stagnation.
However, if India can create capabilities for growth and new solutions, this nation can fly. It is very vital for India to adopt inclusive growth for its 1.25 billion people by transforming the way the economy creates value. Corporate India will be the lever and be required to play a critical role in achieving the goal, not only by creating value by addressing key societal needs, but in supporting a vibrant entrepreneurial sector too. India needs to view its many economic and social challenges as opportunities for growth and renewal. More importantly, it needs to work in close collaboration with the government for implementing new developmental approaches. The recent electoral mandate for development is a clear signal of Indian’s desire for growth and for the benefits of growth to the bottom of the pyramid.

In my opinion, the following will be very critical in the present and the next decade to shape the destiny of our country.

**Role Of The Corporate Sector**
The private sector is the key for rapid economic growth by crafting new business models and strategies and leveraging new technologies. Given an era of globalisation, the corporate sector is well equipped to learn from and experiment with the best practices adopted by global companies. Today, our country requires public-private partnering in most of the essential sectors such as Infrastructure, Healthcare, and Education for its growth journey. However, India’s private sector will have to invest more in research and development to come out with innovative ways in order to address the challenges of emerging markets.

Indian companies will be required to create flexible and adaptive operating models, asset-light models. They should be ready to experiment with unconventional means and ways to serve customers and leverage technology and social platforms in unique ways.

Most importantly, the India corporate and top management should focus on inclusive approach for long-term sustainability of their businesses. Also, they need to create a culture of integrity, ethics and high governance.

**Entrepreneurial Ecosystem**
In order to fuel rapid growth and innovations, our corporate sector needs to create a dynamic entrepreneurial ecosystem within their organisations, and then only can they come up with radical new solutions required for a vibrant future economy. Top management of companies should take cognisance of this and be ready to take risks, fast decisions, and exhibit bold leadership.

However, let us not limit entrepreneurship to the big companies in urban areas; its needs to percolate to smaller towns and rural areas as well since there lay immense untapped potential. India has proven records of great entrepreneurialism. India’s information technology (IT) revolution whose exports over the past two decades exploded from less than US$100 million to US$86 billion in 2013-2014 generated critical business solutions for multinationals worldwide. India’s telecom sector is another classic example of entrepreneurialism.

Today, technology is one field where entrepreneurialism and innovation is happening at its best. In fact, India is a knowledge-based economy with all the world’s technological needs being fulfilled by Indian companies. As we speak, e-commerce is driving the market crazy and changing the entire landscape of retail business. With billions of dollars of valuation, global funds are pouring in this field.

It is required that Indian government should also understand the importance of entrepreneurialism and its multiplier effect on the economy. Government and corporate should collaborate to create an entrepreneurial ecosystem in our country by providing enabiling infrastructure, market

For India to be future ready, we need to create skilled manpower today. The quality of employment that India provides will prove as crucial as the quantity.
Skill Development

India is a young country; nearly 65% of its population is younger than 35. It has an opportunity to drive economic growth on the back of its rising working-age population, what we all categorize as India’s demographic dividend.

The nation is expected to add almost 10-12 million people to its workforce every year over the next two decades. As other economies struggle with their rapidly aging population, India’s youth could fulfill demand for skilled workers worldwide.

However, India risks losing this demographic opportunity if it cannot create quality employment opportunities at scale and train its growing workforce to excel in those jobs. With greater access to information and growing aspirations among the nation’s youth, the quality of employment that India provides will prove as crucial as the quantity.

For India to be future ready, we need to create the skilled manpower today.

Solving Problems Across Sectors

For making India a major economic powerhouse in the world by rapid and consistent growth, it requires a major transformation. This will be the biggest challenge as India has faced cyclical economic headwinds and structural deficiencies like underinvestment in infrastructure, poor education, and low quality healthcare. Sectors such as agriculture, retail, manufacturing, transportation – all are struggling with similar challenges.

Each of these sectors has to grow with significant new investments and innovative approaches. Interestingly, all of these sectors are interconnected and improvement in one enables improvement in others. For example, good road and rail infrastructure will improve transportation and reduce freight costs for end-users.

Considering the complexity and scale of challenges, India needs very proactive and collaborative support from government, financial institutions and corporate. This journey will have its own set of challenges, but with concerted effort, I believe, rapid, equitable and sustainable growth is achievable.

I would like to conclude quoting A.P.J. Abdul Kalam, “A developed India by 2020, or even earlier, is not a dream. It need not be a mere vision in the minds of many Indians. It is a mission we can all take up - and succeed.”
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BS Nagesh

BS Nagesh is the Vice Chairman and Non-Executive Director of Shoppers Stop Limited. An industry veteran, he spearheaded Shoppers Stop’s expansion and was instrumental in setting up one of India’s largest retail chains of large format department stores with 68 stores in 31 cities across the country.

India is a democracy that gives its citizens the right to express ourselves. This is fundamental to creating an India of Ideas. With more than 65% of our population less than 35 years of age, we need to create an environment where our youth can express themselves and reap the benefit of their expressions directly or indirectly. The key word here is “environment”, environment at home, at school, college, work, organisation where they are employed, society, our cities and at the Centre.
If at young age, boys are allowed to assist their mothers in the kitchen and the girls can help their father to till the land or change the car tires, we will have many culinary masters like Sanjeev Kapoor and leading bankers like Chanda Kochhar in the next few decades. As parents, we need to inculcate human values and not religious values of being Hindus or Muslims; India can once again be the land of spirited or spiritually motivated individuals rather than religiously biased Indians. Our education system is teaching our young what has happened in the past, therefore making us leaders of the past with less of ability to shape the future. Many a times, I see youth who have come from smaller towns, youngsters who have grown up in difficult circumstances becoming much better managers than city-based well-bred highly-qualified individuals. Tough situations, constraint of resources, desire to do better than the peer group, wanting to achieve their parents’ dreams are bigger drivers for innovation and performance.

We have to, as a country, develop a method where the hunger to achieve, being a good human being and contributing to the well-being of the society and the nation become part of our education and upbringing.

We also have a big dichotomy in businesses where the people who run the business are 30 years elder to the people consuming the output of the business. Although youth have taken up new roles, they are not a getting significant say in traditional businesses. Whereas many innovative ideas and success stories of the past few years are happening in businesses that are being lead by young entrepreneurs, many of them straight from college.

We also will have to bring one big social change of accepting failure as a natural way of life. Fear of failure leads to not attempting to take up new initiatives and thereby, lack of idea generation. It’s so strange that we as parents and society, encourage children during their early years, like learning to walk, climbing a rock, attempting a course, we encourage them to try; however, the moment a youth wants to try a new idea or ponders a new avenue for livelihood or wants to take risk, the society shuns him, discourages him, killing the seed of idea generation even before it can germinate.

The government also has a big role to play of being a great facilitator to create an environment where new ideas can be put to execution. The government has to ensure that there is no frustration for getting licenses and permissions, there is no harassment from authorities during the course of business and the authorities are empathetic to supporting and developing an ecosystem of idea generation. At the same time, the youth and the businessmen have to work within the framework of laws.

India has the potential to be the “India of Ideas” because we have the youth, we have the opportunity and we are aspiring to achieve and surpass the developed world, we need to create the enabling environment.
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Paresh Sukthankar
Paresh Sukthankar is the Deputy Managing Director of HDFC Bank, India’s second-largest private bank. He’s been with HDFC Bank since its inception in 1994 and has played an integral role in shaping HDFC Bank into one of India’s leading financial institutions. Prior to HDFC Bank, he worked at Citibank.

It was 20 years ago, in early 1995, that HDFC Bank set up its first branch in Mumbai. Much has changed since then in the banking industry, both globally and in India. Many of these developments have been driven by changes in customer expectations, regulations and technology. With the Indian economy poised for significant growth and the banking sector expected to become the fifth largest in the world by the year 2020 as per a recent study, banking is on the threshold of even more rapid transformation.

A key catalyst for change in consumer banking has undeniably been technology -fundamentally impacting the way that customers access banking services as well as the way that banks identify, originate and service their customers. In the next few years too, technology will undoubtedly continue to play a pivotal role in the evolution of retail banking – driven not only by technologies or tech-enabled developments like the cloud, social media, big...
data or the “internet of things”, but also by changes in demographics and the easier and wider proliferation of technology in general and the internet in particular across the country. By improving efficiencies and enabling banks to reduce operating and servicing costs, technology will also facilitate viability of the financial inclusion efforts of banks.

When it comes to possible future banking scenarios, in many cases there would be existing trends gaining pace, so we are in many ways today already getting a peep into the future. For instance, it may not be too outlandish to envision moving, over the next decade, to a largely cashless economy. Physical cash will not disappear completely but electronic payments through mobile and other devices carried by a consumer may make keeping cash in your pocket almost redundant. Electronic currency may also get greater acceptance and legitimacy. Technologies like RFID and NFC are already being experimented with. Tomorrow, these and other technologies combined with cutting edge data analytics could change the way banks anticipate and fulfill financial needs and will influence the way customers interact with and experience a bank.

Thanks to technology, more power will shift to the customer with every passing day. Customers on their part will use that power to demand more from service providers. Evidences of this trend already abound. In the future, therefore, the customer will be even more central to the scheme of things of a service provider than he/she has ever been before. For banks it could well boil down to who “owns” the customer, both in terms of share of mind and share of wallet. Banks will of course, have to do whatever it takes to win this battle. Appropriate changes in operational and sales processes will be important to leverage benefits of technology – speed, security, customization, convenience, etc. Ultimately, the product range, service experience and quality of advice could be key differentiators for banks to acquire customers, build stickiness in relationships and create brand equity.

Technology apart, change in the banking industry could also be driven by partnerships being forged between banks and other service providers wanting a slice of the customer pie that banks own or have access to. Today, of various service providers, a bank often has the lion’s share of the customer’s mind and wallet. Banks are therefore, rather well positioned to be the one-stop shop for all financial services and the preferred pivot from where the customer might look to access other service or product providers.

Depending on their customers’ preferences and the regulatory environment, banks may seek partnerships which help them cement their banking relationships. This could also be a worthwhile defensive strategy for banks since if customers build a higher affinity or trust with other service providers – say utility companies or online retailers or technology companies - then such players could, over time, elbow their way into meeting their customers’ financial needs too!

So will the determinants of success for banks be very different in the future? Probably not. Banks which remain agile and willing to not only adapt but embrace change, will continue to thrive. Banks which have an unrelenting focus on meeting customers’ needs and helping their customers succeed financially, on execution and operational excellence, on balancing risks and rewards, and on developing and motivating its employees, will tend to stay ahead of the pack in the future too.
Pawan Kant Munjal
Pawan Munjal is Vice-Chairman, Managing Director and Chief Executive Officer of Hero Motocorp. Successfully steering the company during and after its split with its 27-year old partner Honda, Munjal’s eye for detail has led Hero to grow into a global brand.

Imagination Unlimited

To become a powerhouse, a nation needs a vestibule of ideas, and to generate such ideas, only one resource is required—the presence of skilled and passionate human beings. In this vast animal kingdom, what sets us apart as humans is our ability and potential to better our own lives, and to chart our own destinies. There are few challenges that human imagination cannot overcome. With every passing year, our lives get better and more comfortable because a human, or a group of humans, are thinking laterally and differently! Thinking better and smarter lies at the core of unleashing the spirit of enterprise; and by un-
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leashing this spirit, this India of ours can become a Land of Ideas. An entrepreneurial ecosystem offers everyone—whether he or she is based in Bangalore or Bastar—the chance to plug into a global world, to create employment and wealth.

An entrepreneurial ecosystem helps countries and their people overcome traditional barriers to growth—like natural resources, or political system, or size or climate. Take the example of Israel, a tiny sliver of desert with eight million people. This nation is surrounded on all sides by nations that would like to see it obliterated from the world map. Yet, Israel is renowned around the world as the ‘Start-up nation’. Israel has the highest density of technology start-ups in the world. These start-ups attract more per capita venture capital than anybody else—2.5 times the US, 30 times Europe, 80 times India, and 300 times China. Israel has more tech companies listed on NASDAQ than any country outside the US. In fact more Israeli companies are listed there than from all of Europe, Japan, Korea, India, and China put together!

The entrepreneurial ecosystem listings. According to the World Bank’s Doing Business rankings, India occupies a miserable 142nd slot. Starting a business in India is a game of nerves and patience.

Foremost, our education sector needs serious tweaking and overhauling. We are a manufacturing firm, and just as we cannot produce world-class motorcycles and scooters with a faulty assembly line, we cannot hope to produce innovators with a creaking and archaic education system.

As Wipro’s chairman Azim Premji pointed out in his insightful speech at the inauguration of Prime Minister’s new ‘Make-In-India’ initiative, to make India a manufacturing powerhouse, we need to prepare an educated workforce of thinkers and problem solvers, not rote learners.

We simply need to focus relentlessly on creating scale at all levels of education—be it primary schools or elite institutions such as the IITs.

The other important factors are cultural in nature. Barring a few pockets, and barring certain traditional business communities, Indians are mostly risk averse.

Most of our citizens are mortally scared of failure. The ability to put a premium on failures still eludes most of us. Few are prepared to accept the truth that a failed venture carries with it more precious and meaningful weight than an MBA degree secured from the comfort of a campus.

Another cultural change that we must embrace to be at the cutting edge of innovation is to shun ‘jugaad’. The celebration of ‘jugaad’, or ‘Sellotape Technology’ makes us unwitting prisoners of a mindset that is eventually counterproductive.

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Another cultural change that we must embrace to be at the cutting edge of innovation is to shun ‘jugaad’. The celebration of ‘jugaad’, or ‘Sellotape Technology’ makes us unwitting prisoners of a mindset that is eventually counterproductive. We master the art of “managing somehow.” We end up settling for second or third best. Jugaad promotes adhocism. It is embedded in compromise. It leads to hastily put together, and eleventh-hour solutions to problems.

We in India should pursue a quest for excellence, and not merely for cut-price remedies.
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This fiscal year, the divestment target is an ambitious Rs 58,425 crore; last year, the achievement was a mere Rs 21,321 crore against the target of Rs 54,000 crore. With more than two-thirds of the financial year already gone, only a minuscule Rs 1,800 crore has been raised. This is really worrisome. It is déjà-vu all over again... there would be an undesirable crowding of issues in the last quarter. It is only hoped that given the pressures, the government does not re-sort to the ingenious ways of last year—special dividends, cross-holdings, buybacks, et al.

The objective of disinvestment should not just be raising funds to meet the fiscal deficit, it should more importantly be about broadening and deepening capital market and getting retail investors, as also bringing about more transparency and better governance in PSUs.

Besides opposition from ministries and trade unions, deterrents for divestments include policies and procedures. For illustrative purposes, the general trend has been that the much-awaited divestment ‘drive’ finally started late, in December, though in a small way with Rs 1,715 crore worth of SAIL shares. While there have been reports of its success in “flying colours”, the offer in fact has yet again brought to fore several critical questions. It not only failed to attract marquee global investors, but also did not generate enough interest in the retail market (collecting only Rs 172 crore from retail). Ironically a small private sector IPO -Monte Carlo Fashions- at the same time collected as much as Rs 850 crore from retail. And, as ever, LIC and some other government institutions had to come to the rescue taking up over 70% of the SAIL offer.
since the government, in the name of transparency, announces its intentions of specific share sale of listed companies in advance, the market starts selling, including short-selling and arbitrage, beating down the prices of such stocks, resulting either in deferral of the offers or in the government having to sell the shares at much lower prices. There have been many such cases in the past. Take Power Grid: its 52-week high price was Rs 121, and subsequent to the advance announcement of the FPO, the market beat down the price, its issue forced to be priced at just Rs 90. For 18.52 crore shares that were divested, the loss to the government was a whopping Rs 574 crore. No one can be held accountable for such losses, the defence being that the offer could have been done only at the prevailing market price. In recent times, despite the ris-

Going forward, the focus should primarily be retail. That is also what the manifestos of all political parties declared. Even the vision statement of the Department of Disinvestment proclaims “Promote people’s ownership of PSUs through disinvestment”, its mission statement emphasises “increase public shareholding in the listed ones and develop and deepen the capital market through spread of equity culture.”

Thatcher-style, all issues from listed PSUs and PSBs should be sold entirely to retail. This is the best ever opportunity to get retail household savings into the market, with many first-time investors also joining in. All these are blue chip companies and retail would lap these up. In terms of process, the simplest form of offering fixed price FPOs should be made.

Important, however, is pricing. A good discount of 10-15% on the market price should be offered. The present 5% discount can and has evaporated in a matter of days given the volatility of our markets. To prevent flipping, a suitable lock-in could be stipulated.

The government should not look for maximising receipts, which in any case it has not been able to. Discounted pricing for retail shall surely not maximize returns for the government, but we should recognise that in this manner, it is public wealth which is being shared rightfully with retail. Significantly, such discounted offerings would be criticism-free as allotments shall be made to anonymous, and not selected, small investors. At the same time, it would bring in millions of small investors into equity investing. This would, of course, also be politically expedient. It is intriguing why the previous government was not keen on giving discounts to anonymous small investors but gave ONGC and Oil India a hefty 10% discount to buy government’s 10% stake in Indian Oil.

A retail policy will also have other positive impacts. Retail investors would get a taste of equity.
It will provide the much-needed depth and width to our market. It will also address the grave scarcity of good listed companies which cause excessive speculation and volatility. Finally, it would bring down our over-dependence on the FIIs.

Vested interests often create fear about the lack of depth of the domestic retail investors. This is a bogey. Just two examples would suffice: 46.23 lakh retail investors put in Rs 39,919 crore in the IPO of Reliance Power and 15.61 lakh retail investors put in Rs 10,232 crore in Coal India’s IPO.

These were man-on-the-street investors who put in applications of less than Rs 1 lakh each and were genuine investors, sans the multiple applications, following strict enforcement/regulations post the IPO scam.

Let’s give the all-retail policy at least a chance to be tested out. Any one good PSU can be offered through fixed price FPO at a 15% discount. The retail depth will be clearly demonstrated. To enthuse retail further, RGESS should be re-oriented to cover only IPOs, PSU divestments and mutual funds. Also, to increase the reach, since all banks are now computerised, all their branches across the country should become collection centres. Until the time we get down to 100% retail offerings, at the least, the present systems need to be altered. In OFS, large reservations should be made for domestic institutional investors and retail. The name of the company and its offer price should be announced with only one day’s notice, and the trading in the relevant company’s shares should be put in suspension mode on the day of the offer. Most of the PSUs are very actively traded and well-researched, and neither any advance notice is necessary nor road shows to promote such sales.

If FIIs are to be involved, they should be offered only the closed auction method. It is well known that some of these are long-term investors who would like to acquire large quantities of these stocks and hence would be willing to pay even a premium to the market price (and not discount as is likely to happen) as any bulk purchase from the market is cumbersome and leads to big spikes in the prices.

On the IPO front, there is barely any talk. The last PSU IPO was the small Rs 125 crore one from NBCC in March 2012, which incidentally has given a five-fold return. The only IPO in the pipeline is of Rashtriya Ispat Nigam. More IPOs should be planned. In all IPOs, 25% of the issue should be sold to QIBs though book-building to help price discovery. The balance 75% should be offered to retail through the fixed price route at a discount of 10-15% on the discovered price. Retail customers of respective banks should be preferred for the proposed sale of PSU banks’ shares.

On a longer-term basis, to make these PSUs more valuable, there is an urgent need not only to bring greater clarity to sectoral policies that affect PSUs, but also improve corporate governance. Disinvestments have become a victim of lack of leadership and opposition. To expedite, an idea worth pursuing is to transfer all shareholding of the government to a professionally-managed holding company which would take appropriate decisions on share sales.

On another front, in line with what I have been advocating earlier too, the government now seems to have a plan to exit from loss-making CPSEs (there are nearly 80 with cumulative losses of over Rs 60,000 crore).

The markets are upbeat, but can take a downturn any time. Bad pricing/bad processes may lead again to issues being called off or be tactfully placed with government institutions. Stake sales through OFS cannot revive the primary market; IPOs and retail FPOs can. This is the best time, as ever, for the government to divest aggressively. People have been devoid of any capital market opportunity for nearly three years now. PSU issues can actually be the game changers.
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India’s past embeds heuristics which can help us manage our future. Her ancient texts gave us the concept of Shunyata, i.e., the source of life is nothingness. It also provides us with the view that the soul is the whole, and from the whole if the whole is removed, the whole still remains. The apparently opposite explanation of the source of life or the universe was converted into a mathematical equation by the great mathematician of the 7th century, Brahmagupta – an equation that gives us the central idea for the India of the future.

Brahmagupta was the first mathematician to recognise the significance of zero. Brahmagupta saw that zero could be split into two equal but opposite components.
like the ancients had experienced and postulated. Brahmagupta argued that zero was the number which resulted from adding any number to its negative partner like $1 + (-1)$. This rule laid out by Brahmagupta for calculating with zero surprisingly forms the foundation of several mathematics and physics principles. Brahmagupta’s conceptual trick of splitting nothing into two equal but opposite components arguably underpins the big bang theory, i.e., the universe was created from nothing, in the big bang, and may one day return to nothing, in a big crunch, or helps explain anti-matter as the opposite of matter. How is this concept of zero relevant to guide us in making choices in the coming years?

Every positive has a negative, every condition is balanced by its opposite. It brings us to the concept of barbells in life or in managing the Indian economy. This heuristic and, in fact, mathematical insight leads us to believe that a one sided view on economic matters is a faulty approach.

Let us examine this in the context of managing India’s future. It is widely recognised that India has among the best demographics in an aging world. However, this positive is offset by a population that is sub-standard in terms of health and education. India also has a rich culture to guide its people – and arguably an average Indian is hardworking and highly aspirant. Now, India is also genetically coded for risk taking – India has been renowned for its trading instincts even though these appear to have faded in recent decades. This genetic coding has not gone away.

Given half a chance, i.e., a better environment to do business, we believe it plausible that several wage earners will plunge into entrepreneurial ventures – a crucial ingredient for prosperity in the modern society, albeit, at the same time, India needs to fund education and skilling a vast army of daily wage earners or the salaried class. This is the barbell or shunya approach from ancient India. Other such examples include:

- Vibrant capitalism and private enterprise vs state owned activities in non-profitable areas
- Centralised policy making and decentralised or state-level implementation
- Centralised tax collection (GST), decentralised spending (states or municipalities)
- Price controls for government-sponsored essential services and market-led economy for all others

Even from a stock market investors’ perspective, the concept of barbell is crucial. Investing on the basis of a forecast of the future is fraught with risk – the future is neigh impossible to predict. Instead, investors are better off preparing their portfolios for scenarios. Recalling Brahmagupta’s concept of zero, the investment portfolio at one end should contain steady and low but highly predictable returning assets in large quantities and at the other end, should contain low exposures to high return and high-risk opportunities which may also yield nothing in a path dependent future, but could generate massive fortunes too if things go right.

This barbell methodology may be controversial and may even appear risk-averse, but in the long run, may generate better outcomes. This approach is also less in prescription but could be a superior way to overcome uncertainty.
When a country has 1.25 billion people, it has the potential to unleash a billion plus ideas. This ancient civilisation of ours has contributed through science, arts, literature, architecture, design, innovation and mathematics. But much more can be achieved.

Ideation to Execution

Ideation is the easy part; execution requires enormous risk-taking, attention to details and meticulous follow-through. So how do we create a culture of start-ups and make India into a start-up nation? Firstly, we need to understand why Indians abroad are able to unleash...
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Everyone wants to enter the market at the lowest level and exit at the highest. But it is very difficult or rather impossible to time the market. Instead of making investment decisions on the basis of tips, market trends or economic outlook, you should consider the fundamentals of the investment instrument and invest regularly. A disciplined investment approach will help you meet various financial targets of your life.

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their ideas and spawn billion-dollar companies. The primary reason driving that is that as a culture, we have been risk-averse and see failure in negative light rather than a stepping stone to success. Also, traditionally, government has been seen as patron of the people and individual entrepreneurship not seen as a viable career option. But this is changing. With Prime Minister Narendra Modi coming to the helm of affairs and even the budget having a start-up fund, India seems to be headed in the right direction.

Secondly, India needs more government R&D. Today, the global price of oil is at its lowest in years due to the shale gas extraction technology made by Americans. This won’t have been possible without the active support of the US Government which pumped in billions of dollars to research shale gas technology by setting up the Gas Research Institute and support of Sandia National Laboratories (belongs to the US Energy Dept). Similarly, the internet and GPS technologies have come about owing to the US Military’s active R&D. Today, we have world-class institutions in India such as IIMs, IITs, IISC, DRDO, HAL which belong to the government and which can help trigger a massive cross-fertilisation of technologies through brilliant well-funded projects along with the private sector.

Thirdly, the private sector has played a stellar role in powering ideation and innovation. We at YES BANK are proud to have partnered many small and medium entrepreneurs to help them reach their full potential. We strongly believe in recognising their efforts and have partnered a premium Indian publication for audited, jury-assisted awards for best performing SMEs and emerging companies. Many organisations have also partnered or acquired multinational organisations. This organic and inorganic growth and the resulting amalgamation of ideas are bound to spur rapid growth.

Finally, it must be noted that India has been a start-up nation for some of the world’s major spiritual ideas. The UN recently declared June 21 as International Yoga Day. This is a victory for Indian culture and also for the efforts put in by Prime Minister Modi to promote Indian culture. It has to be noted that a major world religion, Buddhism, was founded in India and has proved to be one of India’s best exports and an exalted idea for the world. We at Yes Bank believe that India’s past has a great future.

Towards this end, we recently launched projects such as heritage walks targeting major locations that are considered world heritage sites to promote Indian culture. I strongly believe that we must use our cultural traditions to inject the power of pride and self-belief to augment the ability of each and every Indian citizen to ideate and create.

Time has come for us to not only ‘Make in India’ but also ‘Ideate and Create’ in India. A billion innovations keenly await us!
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**Note:** Risk may be represented as:

- **(BROWN)** investors understand that their principal will be at high risk.
- **(YELLOW)** investors understand that their principal will be at medium risk.
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Contact your Financial Advisor

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India is teeming with ideas. The realm of change and transformation has never been more exciting. A new age of learning, adapting and challenging status quo has opened up a promising frontier for change. One of the spheres where the motor of change is revving up is healthcare. Yes indeed, this is a space where much is still to be done and it is ideas that are spurring innovation. Scientists from India have travelled and gone beyond the borders to make new drug discoveries possible. Until a few years ago, this was a dream waiting to happen. Discovery of Lipaglyn, a pioneering therapy for diabetic dyslipidemia, has helped India make its mark on the innovation orbit and shrug off the tag of being just a ‘generic drug maker’. The importance of any innovation is not limited to just one drug or the cure for that one disease. Who
would have thought that one day we would live in a polio-free world? It took a spark of idea to innovate, several years of hard work on the innovation, and finally a polio vaccine to make it a reality. Exciting, game-changing ideas set on rails a new train of thought where researchers look at other unmet healthcare needs and ask why not?

Today, it is possible for 12 million people suffering from autoimmune disorders in India to access biological therapy that was not available earlier: Exemptia, the world’s first biosimilar for Adalimumab, the revolutionary therapy for autoimmune disorders was discovered right here in our country. What does this mean to a child suffering from juvenile idiopathic arthritis? It means freedom to run and chase his dreams. It is ideas and innovation that bridge this divide between dreams and reality.

What would it mean for us to have preventive vaccine that is able to wipe out the scourge of kala azhar or leishmaniasis – a deadly parasitic disease that is endemic in the rural heartland of Bihar, Jharkhand, Uttar Pradesh and West Bengal? It means the gift of life to over 160 million people who are at high risk and can do little to protect themselves.

Is it possible to look at newer approaches to patient care programmes that can help patients cope with their chronic diseases in a more systematic way? How can we maximise the use of digital platforms with real-time updation for patient information programmes at the grassroot level? Ideas that move out of their narrow confines to explore, converge and are expansive in their vision will rule the decade.

The big spectrum of opportunities in healthcare majorly lies in understanding, prevention, diagnosis and treatment—in each of these spheres, we have new ideas being chased. We understand and are finding solutions to healthcare challenges, learning more about complex disease mechanisms and their pathways, and discovering effective therapies to tackle these diseases and carriers of ill health.

Well-being and health of its people is a nation’s greatest strength. Given the right impetus and resources, there are enough and more ideas in India that can be worked upon to change and transform our world.

The challenge for us really is not to just focus on ideas that are going to change disease outcomes but to harness the spirit of innovation to understand and combat its mechanics. The ideas will need to translate into tangible models of accessibility and availability for the society to be able to reap the benefits at large. The lead time and the ability to respond in a timely fashion is the key, or rather is everything in the world of medicine. So how can we catalyse ideas and spur them onto the implementation stage as quickly, cost effectively and efficiently as possible? The contours of our healthcare spectrum will change as we try and actively seek answers to this question. The transformation journey from ideas to implementation that we shall traverse is where the real value lies in the coming decade.
20 Game-Changers For 2020

A Vellayan

A Vellayan is the Executive Chairman of Murugappa Group, one of the largest and oldest family business groups in India. He is also the Chairman of EID Parry (India) Limited and holds a Master’s degree in Business Studies from the University of Warwick Business School, UK.

In his book, “India Unbound” Gurcharan Das claims that India will soon overtake Europe as a global economic power, that in the next two decades India will become the third-largest economy, after the US and China, with a middle class of 250 million people. He talks of an India where teenage tea-shop assistants work to save money for computer lessons, where Bill Gates has put Gandhi in the hearts of the people and money is the new god in the temple. This appears far more real today than ever before with a strong new government at the Centre, ably led by a visionary Prime Minister. Here are some ideas / initiatives / changes that can catapult India to the big league.

1. Spirit Of Entrepreneurship: There are several success stories of first generation entrepreneurs making it big, the most recent being that of Flipkart. Indian entrepreneurs have proved that they can create wealth and employment in the country, with their clear vision, innovations and commitment towards their goals with strong management and organisational skills. The Government and the Corporate India should encourage and support these initiatives and ideas and harness the power of youth.

2. Urbanisation: Globally, megacities are set to double to 35 over the next ten years. Nearly 590 million Indians are expected to live in cities by 2030 – nearly twice the size of the US today – and megacities will triple to six by 2030, in
Indian entrepreneurs have proved that they can create wealth and employment in the country, with their clear vision, innovations and commitment towards their goals and strong management and organisational skills.

addition to which the Indian government has set an ambitious target of creating 100 smart cities. Urbanisation will create huge opportunities, in construction and broadband, and in the public infrastructure space (e.g., sewage, roads, public transportation) among many others over the next decade and beyond.

3. **Agricultural Boom**: Within India’s borders lie half of all the arable land in Asia. India should, therefore, be able to feed and clothe the world. Despite having the highest percentage of land in agriculture, greater area equipped for irrigation, and 60% of the total workforce engaged in agriculture, India’s productivity is the lowest among Brazil, China, Indonesia, Thailand and Vietnam. However, the increased global economic growth would require 10,000 years of historical food production to be matched in the next 50 years. India would need ~2x productivity improvement to meet domestic demand. This will bring up multiple opportunities in agricultural inputs (e.g., seeds, fertilisers, crop protection, chemicals, mechanised farming, etc.)

4. **Infrastructure Boom**: As India grows, every part of India will be rebuilt. About $1.2 trillion investment will be required by 2020 to meet demand in Indian cities, ~5x of the spend in the last decade—$200 bn spend on transport, 150 mT of new cargo volumes, ~50 new airports planned, 20 new ports to be established. The Ministry of Surface transport has set itself an ambitious target of laying new roads of a few kilometres every day for the next decade. Introduction of bullet trains, metros and several other initiatives on a public private mode will throw up huge economic/business opportunities. New opportunities will emerge across the value chain in power, transformation, construction etc.

5. **Energy**: Annual capacity addition is set to increase by 7x (10-15 GW a year) to meet Indian power demand. Share of renewable energy would increase by 1.5x over the next ten years. Opportunities will emerge in the power sector (e.g., Oil & gas, thermal power, solar).

6. **Technology Boom**: Technology will spur innovation and increase productivity in new areas (e.g., microclimate sensing based irrigation). Access to new geographies will transform the way businesses operate (e.g., mobile penetration to double to ~60% by 2015 in India). Innovation opportunities will emerge in traditional industries (e.g., agriculture) and improve access to rural markets.

7. **e-Infrastructure**: Information technologies and e-learning infrastructure should be given due emphasis and necessary funds to grow. This will provide open and fair opportunity for all.

8. **e-Governance** - We should change the type of governance at every level so that well-qualified and deserving persons reach the top. E-Governance across India will help speed up the response time and improve delivery. It will increase transparency and also eliminate corruption. This will help change the image of India to one easy to do business with.

9. **Panchayats**: The country’s nearly three million panchayat members embody governance at the grass roots. Almost all of them have mobile phones. By developing all-round content and service-driven mobile applications, one can empower these three million and ensure better governance and revenue-oriented services.

10. **Connectivity**: Mobile networks have significantly reached out till the village level and offer a great opportunity to provide mobile broadband for the last mile and connect millions in remote areas. The Unique Identification Authority of India, or UIDAI, aims to give every Indian a unique identification number which could be used for access to government services. Everyone who gets a UID or Aadhaar number, will first have to be fingerprinted and have irises scanned. A dynamic database of these details
could eliminate fraud. Some 20 million bogus ration cards may be rendered useless if Aadhar becomes the basis for distributing subsidised food grain.

Additionally, it could enable those with no bank account to get one. It is also expected to create an ecosystem for innovation and entrepreneurship that fosters technology-driven solutions to benefit all sections. Its first uses are likely to be in the social sector: National Rural Employment Guarantee Scheme, distribution of cooking gas and financial inclusion.

11. **Cloud Computing:** Cloud computing improves business value by increasing connectivity and mobility. Small and midsized companies are adopting cloud services much faster than big ones. The Indian market is expected to see a 33% CAGR and be worth $16 billion by 2020.

12. **Mobile Wallet:** Instead of swiping your prepaid smartcard or paying cash at a toll plaza, you would just flash your mobile phone in front of the swiping machine and go on your way. Electronic clearing and cards currently account for less than 2% of the total value of retail transactions. Mobile payments are more convenient and cost-effective than cash transactions. They also improve productivity by making it easier to pay and receive money anywhere, at any time.

13. **Power Of Information:** As tablets become cheaper, people will use them for information and entertainment. The ability to communicate with people has increased economic opportunities manifold. Tablets will take this transformation to the next level.

14. **Penetration Of Broadband:** It has been estimated that economic growth rises by 1.3 percentage points for every 10% rise in broadband penetration. The telecom regulator estimates there are just 10 million broadband connections in India. Assuming five people use a connection, 50 million people have access to high-speed data services - an impressive number elsewhere in the world but not in a country with 1.2 billion people. As broadband penetration improves, it will directly impact the quality/standards of people across the country and lead to higher economic growth.

15. **Social Networking:** The most radical change, perhaps, is social networking. There is huge amount of shared data stored in servers around the world, and people can access as much of it as they want, whenever and wherever they want.

16. **Emergence Of The Mass Affluent:** The Indian middle class is set to expand by 3.5x to 46% by 2030, on the way increasing services spend—education growing at 18% to US$35 billion by 2016, and healthcare growing 15% to US$190 billion by 2020. These present great opportunities in healthcare, automobiles, financial services and other premium products.

17. **Harnessing Power Of NGOs:** The power of near four million NGOs in India today should be harnessed for positive involvement in areas concerning growth/upliftment of the country. Considering the huge target audience across the social sector, they could be reached using mobile-based applications and services.

18. **Small Enterprises:** India has more than 30 million SMEs employing 62 million people. More than 70% of these do not have Internet connectivity and websites, but they all have mobiles, work in clusters, and are located in small cities, towns and villages. There is huge opportunity here to reach out through innovative mobile applications, including services such as mobile money, financial inclusion and livelihood-oriented services.

19. **Schools:** India has 1.5 million schools and 7-10 million teachers. Less than 8% use infocomm technologies. Use of satellite/broadband networks could ensure quality education for all, irrespective of location and this would provide a solid foundation for a great talent pool for the country.

20. **Primary Health:** India has more than 85,000 public and community health centres, mostly located in remote areas. Most are dysfunctional and non-operative. In most of the cases, doctors are unwilling to go to remote areas. India’s extensive mobile networks can be used to make sure the doctors are present in the health centres and equip district and regional hospitals with video-conferencing to leverage diverse and advanced health services for poor communities.
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Many dreams must be realised. The good news is that most of us are feeling proud to be Indian again. There is a spring in our step and our chest swells with a little more pride as we talk of our country.

We are a nation that could not have asked for more: a land aplenty with natural resources, a demography that most countries would give their right-arm for, undoubtedly one of the world’s most vibrant democracies, an ocean of talent which has proved itself in and

Zia Mody
An ace corporate lawyer, Zia Mody is the Founding Partner at AZB & Partners, which ranks among India’s largest corporate law firms. The Harvard University law graduate returned to India in 1984 after a five-year stint in New York to set up her own legal practice.
to the outside world, a myriad of cultures and languages which resonate across the sub-continent, and a secular nation which largely allows us to follow the faith and religion of our choice and abide and live by the beliefs that shape our daily life.

We are a nation that is fast recognising its lowest-hanging youngest fruit—our women—both across the rural and urban landscape. By 2020, I believe women will be well recognised as part of economic work force and holding up half of the sky.

To take our nation to its destined goal, we need are good quality, good politics and good policy. Ruling parties must rise above that they simply need to rule, and the opposition must rise above the need to simply oppose. The entrenched philosophy about why I should do something unless there is something in it for me has to mute itself into recognising that there is a need to contribute to the larger good. Our citizenry must be called upon to play its part.

Corporate India needs to be largely left alone to demonstrate its business acumen and agility. Self-regulation has to be given due weightage and offenders need to be swiftly and demonstrably brought to task. It is only through this swift system can fear be instilled—the fear of not being good. Policy makers must rise above the constant ghost of resisting liberalising policy on the off-chance that a few may find a loophole. Regulators must be given the assurance that sensible policies they put in place will by and large succeed and if there are some scandals, fingers will not be pointed two decades later. The system will learn from such failures and life must move on. It simply must get easier to do business in India. It is unfair to expect India Inc. to show its animal spirits in the current scenario.

For 2020, my wishlist would be to have a mature set of ruling and opposition parties in both the Houses wanting to legislate and move forward for the betterment of its 1.2 billion voting constituents and to rise above the squabbling and jostle of politics.

For 2020, my wishlist would be to have a mature set of ruling and opposition parties in both the Houses wanting to legislate and move forward for the betterment of its 1.2 billion voting constituents and to rise above the squabbling and jostle of politics.

My list would comprise for India Inc. to recognise that honesty pays, to understand that reputation is sacrosanct and to develop heightened fear of being named and shamed. For our citizen, my wish list is get more education and demand what is rightfully theirs—better health—which will add to the longevity of our people—with skill sets to contribute back into the economy whether it is ‘Make in India’ or ‘Made for India’. And lastly, my wishlist would be to somehow cobble together peace with our neighbours and become a global player in foreign affairs, simply by being a country which cannot be ignored, carving out for itself a place in the sun it can rightfully demand, and to become a positive force to be reckoned with globally.
Budget 2015
Less may be more

Cramming too many reform moves in a Budget is a risky strategy for any government. Investors need to temper their expectations from this annual exercise, writes Swapnil Pawar.

Every year, the budget creates a lot of anticipation and excitement on account of ‘what-will-the-FM-do’. After the landmark budget of 1991 by Manmohan Singh, Indian policy watchers and public alike have come to have huge expectations from the budget. The ‘Dream Budget’ by Chidambaram in 1997 further bolstered these expectations. Coupled with an overactive media and excessive analysis by experts of all hues, the event of budget has become something akin to a ‘Macroeconomic Diwali’ – preceded by a lot of attention and hoopla, and followed by a lot of ‘what-this-means’ sort of analysis. I am not critical of the trend, merely amused by it! An important ingredient of the festivities is the round-up of expectations and wishlists. This is my two cents to the same.
At a meta level, I wish that the budget leaves out a few major areas of reforms for non-budgetary processing. In the same vein, I also hope that it focuses more on revenue and expenditure planning and changes in taxation policies. The idea behind this is simple — economic policy-making and the discussions surrounding it should be a year-long activity. Cramming as many reforms as possible in the budget risks too little assessment of important matters. Also, the important task of fiscal policy and deficit planning is given a short shrift in the din surrounding the thorny and long term issues. Paradoxically, hence, my biggest expectation from the budget is non-expectation, i.e., the hope that the FM leaves out important reforms for later and detailed discussions — one at a time.

More specifically for the wish-list of budget itself, I have classified the items on the list into two categories — fiscal policy and taxation.

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► **Fiscal Deficit**

A bold plan to prime growth through deficit funding of infrastructure projects.

I believe that leaving economic revival to monetary policy loosening and the windfall in crude oil prices is tantamount to being over-optimistic about India’s economic future. There is a clear need to pump prime the economy through aggressive government spending — on capital expenditure. The need to contain fiscal deficit is a secondary matter in my view. The neoclassical macroeconomic paradigm erroneously colours all fiscal deficits the same — evils to be contained and avoided. Subsidy-driven fiscal deficits are indeed suboptimal for the economy while capital spending-driven deficits can be made into engines of growth. Infrastructure investments in India have come to a standstill due to a variety of issues. Solving these issues however will not suffice for restarting infra spending. That is because a lot of private players in the infra sector are badly bruised and overleveraged — making poor candidates for driving massive investments that are needed. While the existing players can repair their balance sheets and new ones can enter with more capital, it is the government’s responsibility to kickstart the activity — hopefully leading to a positive domino effect through increased liquidity.

► **Clarity on disinvestment programme**

Disinvestment had come to a virtual standstill in the last few years. Now that equity markets are roaring again with liquidity, risk appetite and re-rating, the government would do well to divest as much as it can. The budget can provide the disinvestment target for the year — even if it stays clear of the candidate companies. The ETF route to disinvestment is also a good vehicle that has remained underutilised despite the success of the maiden experiment.

► **Subsidy rationalisation plan**

While I advocate deficit spending, I realise that a ballooning fiscal deficit might start having indirect implications for bond yields as well as perception of Indian equities among global investors. An obvious initiative that can help on this front and that the FM has already spoken about is subsidy rationalisation. This can include direct subsidies as well as indirect ones — thus including cooking gas and fertilisers as well as minimum support prices.

**Taxation**

► **GST**

It is understandable if there is not enough clarity on progress of GST by the time of the budget. However, it would be useful to get a sense of the timetable the government has in mind with regard to its implementation and the implications GST has for the exchequer and thus the fiscal deficit.

► **DTC**

While DTC in the earlier form looks highly unlikely, some reforms to broaden tax net and remove obvious loopholes would be welcome.

► **Taxation of investment vehicles**

Greater clarity on tax treatment of AIFs, angel investments for domestic investors and that of social funds and infrastructure funds for foreign investors would be useful.

► **Home loans**

Keeping in line with the increasing real estate prices, revision of priority sector home loan definition above the current level of Rs 20 lakh could reduce borrowing costs of a larger group of home-buyers. Also, keeping in line with inflation and typical loan sizes, an increase in the limit on home loan interest relief for self-occupied property from the current level of Rs 1.5 lakh would be welcome.

Additionally, there is general expectation that this budget goes beyond the cryptic and standard ‘Rs 100 cr allocations’ to all-and-sundry initiatives as described in the previous budget by the FM in July 2014.
Caught In The Slick

Given the global macroeconomic environment, no level is sacrosanct for crude oil price. While it shall level with time, watch out for an impending global recession, warns KP Jeewan.

Last year, $115, and then 105...100...90...80...75...65...55...45... ($30 next?). The drop in oil price has few parallels in history. The collapse was out-of-the-blue and experts then gave various levels where it was supposed to stop—technical targets, fundamental targets and even targets out of thin air. Nothing seems to be working. As I write, oil is in the vicinity of $45 and we just had Goldman Sachs give a target of $40.

Is the drop some kind of a lottery for India? What really is happening to the world economy which is triggering such an unimaginable collapse in a commodity as precious as oil? Where will it stop? Also, over time, it is actually good for us?

Technically, there is no significant support visible till $36-38, and fundamentally, the ‘frackers’ (the shale oil producers) should have stopped producing under $80 but somehow still seem to be pumping away. The same holds true for high-cost producing countries. The collapse is speculated to have been engineered by Saudis in collaboration with the US to punish Russia, Venezuela and Iran.

However, thinking rationally, why would the US destroy its own domestic shale industry, which perhaps is the only one seriously creating jobs and adding to its GDP growth? Though Saudis have a large sovereign wealth fund to see them through, why would they run down...
their only industry and mainstay of the economy? Moreover, at $50 a barrel, every country would have to pump twice the volume of oil (compared to $100/barrel) to generate the same amount of revenue to maintain their respective fiscal balance. Given the finite demand in the short to medium term, this would continue to add downward pressure. Admittedly, shale gas producers would lose money, but with a big part of their investment having already been sunk in, what is more likely to happen is to just push their breakeven point couple of years farther down rather than closing down operations completely.

Given the above backdrop, no level is sacrosanct. Eventually, the commodity will find its own level determined by market forces.

Lower crude price has its obvious benefits for an importing country like India, and at the same time, there are negatives in the form of lower tax revenue from fossil fuel and lower remittances from Middle East—where cost cutting in the form of wage cuts and retrenchments are inevitable (Oman has already proposed a tax on remittances to bridge budget deficit). Gulf sovereign wealth funds would probably cut down on investments into emerging markets like ours.

Sudden drop in prices has expectedly resulted in large loss on inventories for refiners and traders. On balance, however, lower oil prices are beneficial for us in the medium term, in terms of current account and budget deficits as well as savings for consumers.

While fall in crude price appears like a blessing, the broader picture is more worrying. Besides crude, all other commodities have been showing similar bearish signals for some time now.

Alarm bells have also been ringing in the global bond markets. The bond yields in all the developed countries have been at record lows. The 10-year US treasury yield is just 20-25 basis points above the all-time low of 2012 (at the height of QE). German yields are at life-lows. Japanese 10-year at 0.21 is the lowest ever. UK bonds are also at their lowest ever.

While yields being low in the Euro zone and Japan being low are understandable, the US yields are not in sync with general expectation of accelerating growth and rate hike by Fed. Like a canary in a coal mine, such low yields (read together with collapsing commodity prices) are probably signalling impending global recession. Even the recent turmoil in currency markets, the roller coaster ride of Yen, collapse of Euro and recent capitulation by SNB (Swiss National Bank) point to fear and confusion (recent spike in gold supports this hypothesis).

The underlying cause is the failure of central banks (barring US Federal Bank for now) to trigger growth/inflation in any of the developed countries despite six years of unprecedented unconventional monetary stimulation.

Would growth in the US pull other economies out of recessionary pressures or will the economy of the US itself slow with global slowdown? Will lower oil prices trigger recovery in global growth at the cost of Sheiks? Is this the beginning of end of fiat currency system? Will India sustain recovery and grow stronger in the face of such headwinds?

I suspect the answer to many of these questions will become clear before the end of 2015.

The last time we had a turmoil of such global scale, in 2007, many experts propagated a theory that India being a domestic-focussed economy will stand out like an island, and a wave of money would flow into it. For some time this seemed like a possibility, till it hit the fan. There is no doubt we are in a much better shape today to withstand shocks. While it is possible to sometimes predict the events, reaction of investors to them cannot really be predicted.
One of Prime Minister Narendra Modi’s most ambitious campaign promises to create 100 “smart cities” across the country. This initiative has huge potential for placing India on a higher trajectory of sustainable and inclusive growth. It can become a panacea for most of the problems being faced by the Indian economy.

The World Bank recently signed pact for “Smart Cities” at the recent Vibrant Gujarat Summit. The UN Chief stated that India can lead smart growth. In less than eight months of Modi government’s rule, a number of countries have come forward to support specific cities to be transformed into smart cities.

The concept of smart city envisages not only creation of new cities or new townships on the outskirts of cities, but also making existing cities smart through Central aid to “deserving cities”. Union Urban Development Ministry is current-
ly working on a “City Challenge” framework which would help identify the right cities for participation in schemes to build 100 smart cities.

Smart cities model first emerged in European urban planning more than a decade ago. It is a brilliant idea that carries potential of activating strong direct as well as indirect linkages that can immensely benefit the cities, states as well as the entire economy. However, this is not easy to accomplish as it involves meticulous precision planning and effective implementation.

There is talk about the Indian economy moving from $2 trillion to $20 trillion by 2025. This will be possible only with certain critical moves. One such critical ingredient is the concept of ‘Smart Cities’.

What Is A Smart City
Smart cities refer to compact cities that have transitioned to more sustainable development. Technology firms such as IBM have championed another model where millions of sensors across a city relay continuous streams of information to a command-and-control centre. In an ideal smart city, cars can be counted at traffic stops, leaks can be identified in water pipes, or foretell if a cyclone is coming. Application of technology can help the city to know, plan and track. Smart city will have e-governance systems in which citizens can file documents or complaints online.

Smart city ensures affordable housing, cost-efficient physical, social and institutional infrastructure such as adequate and quality water supply, sanitation, 24×7 electricity, clean air, quality education, efficient healthcare systems, dependable security, entertainment, sports, robust and high-speed interconnectivity, and fast and efficient urban mobility. Authorities will have to come out with smart-city protocols that cities will use as the basis for future development projects. Concept of a smart and sustainable city is based on leveraging the power of data and the latest technologies in building and also on information technology to minimise energy and resource consumption, increase the use of renewable energy and reduce and manage waste effectively.

In short, smart cities mean smart ways to work, and most importantly, smart government at the Centre, state and city levels. The Urban Development Minister has suggested a ten-point charter to be ensured for each city — (1) master plans and sanitation plans; (2) long-term urban development plans for districts and city mobility plans; (3) strategies for promotion of renewable energy sources; (4) regulatory bodies for pricing of water and power; (5) assessment and revision of taxes; (6) assessing creditworthiness to mobilise resources from appropriate sources; (7) promoting water harvesting and water recycling; (8) promoting citizens in urban planning, decision-making and management; (9) capacity-building in

Key Determinants of Successful Working of Smart Cities

- India Inc. is no longer interested in ‘capital subsidies’ but desires ‘ease of businesses’ for faster and timely execution of projects
- Good governance norms, especially in public services and functioning of key sectors
- All cities and towns seeking to participate in “Smart Cities” schemes would be profiled based on specific parameters that have a bearing on their ability to address issues of governance reforms, resource mobilisation, execution etc.
- Various FTAs in the making and WTO’s Trade Facilitation Agreement can be the key for success of ‘Make in India’ which includes creation of smart cities
- Continuous improvement in macroeconomics to boost investors’ confidence and achieve sustainable growth
- Developing niche areas in management of a city which it can be known for, like Pune’s smart city focusing on waste management.
- Smart sanitation solutions to build clean, disease-free India
- Industry to play a responsible role in running smart cities. Bajaj Electricals and Cisco have joined hands for smart cities projects which require smart lighting solutions. Infosys is to develop its Mysore campus as a smart city. The company will also provide its expertise in the areas of infrastructure planning and sustainable building technology to the Ministry of Urban Development
- Encouraging PPP model to construct smart cities
- Telecom and IT form the backbone of future smart cities. ‘Digital India’ will not be a distant dream anymore
- Promotion of efficient public transport and providing ample walking space
- Financial agencies will have their jobs cut out. Financing would be based on the ability of urban local bodies to reform urban governance and rise to new and emerging challenges
- Smart cities will have to involve citizens on civic issues
- Smart and reliable geo-spatial data that can be the backbone for the functioning of smart cities
- Scaling up skills and quality of services to be the main priorities with city authorities.
INVESTMENT

key disciplines; and (10) improving urban governance by adopting ICT platforms.

Views And Comments

► The first slew of smart cities has been announced (Chandigarh and satellite towns around, Varanasi, Hyderabad, Delhi et al). This implies competition in this field has already set in.

► Experts are divided over the viability of the smart city proposal. To begin with, the definition of a smart city in the Indian context appears ambiguous. Some say that the cities that come up will be far from “smart” in the sense used by urban planners. Others fear that the ambition will distract from more pressing urban problems that cannot be solved by a “smart” agenda. Rather, solving all urban woes should be a precondition for making smart cities successful.

► First smart cities projects are likely to begin in the next 12-18 months. Task will be difficult as about a third of India’s population is urban, which contributes more than 60% of its GDP, and this is projected to increase to 75% over the next 15 years. By 2050, India is expected to add another 404 million urban residents.

► FM has allocated Rs 70.6 billion to the smart cities scheme. Government hopes to raise five times as much through public-private partnerships, and the US, France, Singapore and Japan have been approached about investments and collaborations. Total amount the government is seeking to raise – Rs 420 bn of government and private money – may not be enough to create 100 such cities.

► In the technology to be adopted by the smart city, sensors are intended to provide information that optimises systems such as drainage networks. Across India, however, drainage networks are patchy or inadequate. In Lucknow, for instance, only 16% of the population is covered by solid-waste sewage system, so sensors will not have much to work on.

► Tackling the massive network of slums is an area that Mumbai needs to grapple with. Every year, slums are razed so that the land can be given to commercial developers. Where will the poor go? They can only move to other slums or they can move into buildings that are cheap but illegal and dangerous. The failure of providing adequate housing in Mumbai is obvious.

► Government’s plan to lavish attention and money upon smaller towns on the cusp of explosive development might fix some problems, but for many of India’s biggest cities, the problems lie in areas which no smart-city agenda can fix.

► Once 100 smart cities are created and competitive forces get unleashed, these will have demonstration effect on other cities, encouraging them to become smart.

► Selection of smart cities, and within these, priority sectors, will be the most critical exercise which will determine the outcome of the entire campaign. ‘Smart Cities’ involves elements that can facilitate catapulting the Indian economy into the league of developed nations and strengthening India’s brand image. Much depends on its implementation. A radical re-orientation of mindsets and methodologies is the need of the hour to convert rapid urbanisation into economic opportunity. Most importantly, we need to overcome the perception that, given the Indian context, the smart cities plan will have limited success. The concept will also mean rebooting of centre-state and city-state fiscal relations.

Positive lessons from the pre-existing massive city modernisation scheme—Jawaharlal Nehru National Urban Renewal Mission (JNNURM) can be imbibed for cities to come up with a vision for themselves by way of credible City Development Plans that can be a good starting point.
The government is pushing sentiment boosting pro-growth reforms through ordinances. But the real impact of reforms would be felt when they are passed in Parliament and what the upcoming Budget unfolds By Sunil Kumar Singh

The just-concluded winter session of Parliament was largely a wash-out for the government’s reform agenda, as a defiant opposition stalled passing of key reform Bills. The upcoming Budget session is also expected to be stormy as the opposition would do all it can to throw a spanner and foil Parliamentary approval to these ordinances.

However, as the opposition turned hostile in Parliament, the government opted to take the alternative route: pushing reforms through the ordinances, signaling it means business and taking bold reform measures. Among the key reforms the government has taken recently include the Cabinet giving a go ahead to the ordinance to amend the contentious Land Acquisition Act, a vital cog to revive the domestic infrastructure; two ordinances to increase FDI limit in the insurance sector to 49% from 26% and to enable the coal block auction process, etc.
Positive Vibes
Experts reckon the ordinance route taken for insurance and coal e-auction process would have multiple impacts on the economy, if passed by Parliament.

“The opposition parties stalled the passage of several Bills for legislation in the winter session of Parliament. The government tried to convince the opposition parties about the reforms and try to get their support to pass some of the stuck Bills but failed. For the growth of the country and prosperity of its people the government has no other way than taking bold decisions,” says Alex Mathews, Head Research, Geojit BNP Paribas Financial Services.

Industry body Assocham identifies three most important impacts of these ordinances. First, the hike in FDI in insurance likely to bring much-needed long term capital to the sector, enabling greater penetration thereby generating an indirect positive effect on infrastructure financing in the country.

Secondly, the coal auction ordinance overcomes the procedural hurdles of Parliamentary approval to assign coal blocks to successful bidders via an e-auction route in a transparent manner which were earlier cancelled by the Supreme Court sighting discrepancies in the allocation process. And lastly, early allocation of coal blocks is critical to bring the power and coal sector out of operational and financial crisis, as any delay could potentially derail the economic recovery process.

This coupled with the surprise repo rate cut by RBI in January and better-than-expected IIP data are positive signals for the economy. A key event investors are watching is the upcoming Budget in February, which they believe is going to revive investment, economic growth and job creation.

“The government is trying to push through the crucial reforms. We already have the much needed diesel de-regulation on our back and markets are keenly watching the clearance to GST and insurance Bill before the Budget. Hence, the markets too perceive the government to be pro-industry and the one which would not hesitate to take tough decisions (and not populist measures) to improve economic health and reduce fiscal deficit,” says Hiren Dhakan, Associate Fund manager, Bonanza Portfolio.

GST Conundrum
Another bold reform step taken by the government is the push for GST. In December 2014, Finance Minister Arun Jaitley tabled the Constitutional Amendment Bill for the Goods and Services Tax or GST in the Lok Sabha. The Bill, when passed, is expected to replace a lot of indirect taxes including service tax, central excise duty, central surcharges and cesses, state VAT, state sales tax, etc.

However, experts believe the GST Constitutional Amendment Bill can be taken forward only if states and political parties come to a common platform and resolve their differences.

“GST (the Goods & Services Tax) is one of the most anticipated reforms, and one that will transform India’s indirect taxation system. While the government is firm on its April 1, 2016 start, very little is clear and known so far. It is a complex issue with many uncertainties that will get resolved over time,” notes a Credit Suisse report.

“We see four key steps in the evolution of the economy towards GST: (1) passage of the GST Bill and formation of the GST Council; (2) release of GST guidelines by the GST Council; (3) implementation of GST; and (4) accretion of the above-mentioned gains such as widening of the tax base and economies of scale. Most observers seem quite enthusiastic about GST, and the government is firmly committed to a April 1, 2016 commencement. However, we believe the target is aggressive, and may need to be pushed out by at least a year as challenges abound at every step,” it adds.

Reforms And Roadblocks
There are no doubt key risks to the economy going forward. The most apparent being the pressure exports could face.
Although the crude oil price has dipped bringing much cheer on the current account front, the decline is also a clear signal of the demand dip in most of the large economies of the world, including China, Japan, Europe, etc. Surely, India’s exports could face a great challenge in the months ahead.

Also, any further slowdown in Europe and China would adversely impact the international capital flows in Indian capital markets and the rupee may come under pressure again.

“The risks to the Indian economy are mainly from the overseas situation which has so far helped in terms of low crude oil prices. But the negative impact would be seen on merchandise exports, IT exports and the money moving out from the emerging markets and the attendant impact on the rupee,” notes an Assocham report.

On the domestic front, experts believe the biggest challenges before the country today is growth and employment generation, revival of the investment cycle and domestic demand. For this, they believe, there is a need to re-strategise the exports in the changing world by concentrating on the domestic demand through Make For India and not Make in India approach.

Further, it should be largely the government and the government-owned companies which have to lead the investment revival cycle. Even if revival were to happen, it would be a time lag of at least 18 months before it reflects on the manufacturing sector which is in the dumps.

Besides, the private sector is under a heavy leverage and finding it difficult to service the debt under an interest rate regime which remains hostile to consumer demand and investors’ risk appetite.

“Under these circumstances, the only way left for investment to return is through state funding of the infrastructure; both economic and social as also asking the cash rich public sector companies to create additional capacity and expansion either through new projects or through asset acquisitions. The public spending on infrastructure has to increase rather than decrease, as there are apprehensions about the same,” says DS Rawat the Assocham Secretary General.

Experts also argue the Make In India programme and the domestic manufacturing sector can revive only when the Land Acquisition Act is amended to make it easy for the industry to acquire land from farmers who certainly deserve a good deal.

Although the 0.25% repo rate cut in January by RBI from 8% to 7.75% came as a healthy surprise, the RBI needs to move in tandem with the government to ensure that the interest rates are brought down with the inflation coming down in order to revive the job-creating real estate sector.

Looking Ahead

Despite all these measures, there is a long list of growth measures to be implemented by the government in the next few months. One of the crucial efforts is to meet the tough FY2014-15 fiscal deficit target of 4.1% of GDP.

In fact, fiscal consolidation constitutes one of the big reforms by the government. This could include steps such as embarking on a systematic disinvestment programme, putting in place a strong and effective expenditure management mechanism, creating a roadmap for recapitalization of PSU banks and upgrading its tax infrastructure in line with GST implementation by the target date of April 2016, etc.

Assocham has made various short and medium term recommendations for the government in view of the upcoming Budget. This includes reviewing/updating of 100+ archaic laws and regulations, and reducing number of procedures and approvals involved in starting and doing business; setting up Rail Regulator to facilitate PPP; formulating a National Resources Policy and set up Natural Resources Regulator to ensure fair, transparent, accountable auction-based mechanism for allocation of high value natural resources; making tax compliance easier by removing separate levies of surcharge, education cess; and giving infrastructure status for real estate/urban realty to unlock growth potential, etc.
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Indian equities had outperformed major global indices, barring China during calendar year 2014, driven primarily by the big political changes which helped global investor confidence.

The sharp drop in crude oil prices and a slightly stronger rupee had improved fiscal health and led to a turnaround in India’s macroeconomic climate. Globally, steady recovery of the US economy had led to the US Federal Reserve to signal a tapering of bond purchases or quantitative easing (QE) and readiness for increasing interest rates, confirming the gradual return to health of the worlds’ largest economy.

**Outlook for 2015**

Economic growth could reach 6.5-7% during 2015 driven by an uptick in the domestic investment cycle. In 2015, Indian economic growth could be driven by the reforms momentum. The government is enthusiastically pushing through initiatives like introduction of goods and services tax (GST) which many say is akin to India signing a free trade agreement with itself, land acquisition amendments, insurance sector reforms and coal blocks auction bills. Under the ‘Make in India’ campaign, the government is keen to abet the process of mass manufacturing in India.

Interest rate cuts too will help credit growth. Expectations over RBI cutting interest rates by over 50 basis points were reflected in 10-year government bond yields. The reduction in interest rates coupled with improving business climate could trigger a pick-up in the credit cycle.

Subdued inflation amid softening global commodity prices has helped the gov-

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**Stock Picks For 2015**

Our team of analysts select some blue chip stocks that would keep your portfolio healthy in 2015  

By Team Finapolis
Improved macros would bring stability to the Indian currency markets. If the government successfully contains fiscal deficit at 4% and the current account deficit below 2%, given lower import bills for crude oil and gold, the rupee will stay strong.

Corporate earnings in India is expected to grow over 15-18% in 2015, which is likely to be revised further based on improvement in execution at the ground level, softening commodity prices and sustainability of the global growth momentum.

In 2015, we expect the Sensex to trade in the band of 27720 to 35640. There could be short-term volatility as markets have priced in growth post the elections.

Our analysts take a look at some of the blue chip stocks that will provide healthy returns in 2015.

In Pole Position

Asian Paints is expected to register strong growth and strengthen its leadership in the domestic decorative paints segment which contributes 81% of its revenue, amid higher double-digit volumes growth, due to incremental demand from tier-2 and 3 cities. Its innovative products, superior brand image, strong marketing and distribution network will drive volumes growth.

Asian Paints has a strong presence in the industrial and automotive segments, with a focus on Tier-2 and Tier-3 cities. The company has a well-established distribution network and strong marketing and branding.

In January, Asian Paints announced a comprehensive acquisition of a 51% stake in the Ethiopian firm Kadisco Chemicals, which is expected to aid international revenues that account for around 13% of its turnover.

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The bank is planning to raise close to Rs 100 billion in the next few months which will aid growth plans over the next few years.

Net interest margins (NIM) is expected to be around 4-4.5% led by the bank’s strong credit account-savings account (CASA). Further, current deposits are likely to grow strongly due to recovery in capital markets where the bank has higher market share.

HDFC Bank is relatively immune from asset quality strain in the banking industry, primarily due to superior risk management practices along with lower exposure to stressed sectors. We expect further moderation in fresh slippages.

HDFC Bank was able to command premium valuation in the market for its consistent growth of over 20% in net profits, healthy balance sheet growth, higher NIMs, lower NPAs, superior return ratios coupled with good corporate governance. Its proposed capital raising plan will lead to rerating of the stock in the coming months. The bank could offer 21% upside from its current levels in this calendar year.

### JSW Steel

**A Premium Player**

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**Top Gear**

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**L&T’s outstanding order book at the end of September 2014 was at Rs 2144 billion from diverse sectors, while the order inflow for the year was expected to be around Rs 1400-1500 billion. This robust order book build up reflects its proven leadership in the infrastructure and engineering segments and gives revenue visibility with order book coverage of over 2.5x.**

L&T has an excellent track record of executing the most complex projects in diverse sectors like infrastructure, oil and gas, defence, power and others, making it the preferred partner, resulting in repeat orders from clients. The infrastructure segment which constitutes 68% of the order book and 46% of its new order inflow during FY15, continues to drive growth with strong traction in order inflows and revenue growth along with sustained EBITDA margins of 11-12%.

Any divestment or induction of a strategic partner on the lines of Canada Pension Plan Investment Board’s Rs 2000 crore investment in L&T Infrastructure Development Projects, or listing of its subsidiaries, would unlock value. L&T’s shares could rise by over 30% in 2015.
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## Indian Indices: Performance

<table>
<thead>
<tr>
<th></th>
<th>Close Jan 23, 2015</th>
<th>Close Dec 31, 2014</th>
<th>Return (%)</th>
<th>Return 6 M (%)</th>
<th>Return 12 M (%)</th>
<th>PE Ratio</th>
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<td>BSE Consumer Durables</td>
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<td>BSE Teck</td>
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## Global Indices: Performance

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<th>Close Dec 31, 2014</th>
<th>Return (%)</th>
<th>Return 6 M (%)</th>
<th>Return 12 M (%)</th>
<th>PE Ratio</th>
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<td>MSCI World Index</td>
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### ASIA

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<th>Return (%)</th>
<th>Return 6 M (%)</th>
<th>Return 12 M (%)</th>
<th>PE Ratio</th>
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<td>Hang Seng</td>
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<td>5.28</td>
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<td>Singapore Straits Times (STI)</td>
<td>3411.50</td>
<td>3365.15</td>
<td>1.38</td>
<td>1.83</td>
<td>10.91</td>
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<td>S. Korea</td>
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### AMERICA

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<th>Return 6 M (%)</th>
<th>Return 12 M (%)</th>
<th>PE Ratio</th>
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<td>35.63</td>
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### EUROPE

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<td>CAC 40</td>
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<td>7.16</td>
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<td>27.75</td>
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### January International Commodity Futures Price Trends

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<th>Commodity</th>
<th>January 23, 2015</th>
<th>December 31, 2014</th>
<th>% Change</th>
<th>52 Week High</th>
<th>% Change from 52 Week High</th>
<th>52 Week Low</th>
<th>% Change from 52 Week Low</th>
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</thead>
<tbody>
<tr>
<td>Nymex Crude Oil (S/bbl)</td>
<td>45.59</td>
<td>53.27</td>
<td>-14.4%</td>
<td>107.73</td>
<td>-57.68%</td>
<td>44.20</td>
<td>3.14%</td>
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<tr>
<td>CBOT Soy Oil (cents/lb)</td>
<td>31.60</td>
<td>31.97</td>
<td>-1.2%</td>
<td>44.70</td>
<td>-29.31%</td>
<td>31.12</td>
<td>1.54%</td>
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<tr>
<td>ICE Cotton (cents/lb)</td>
<td>57.30</td>
<td>60.27</td>
<td>-4.9%</td>
<td>97.35</td>
<td>-41.14%</td>
<td>57.05</td>
<td>0.44%</td>
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<tr>
<td>LME Copper 3 Month ($/t)</td>
<td>5519.50</td>
<td>6300.00</td>
<td>-12.4%</td>
<td>7314.50</td>
<td>-24.54%</td>
<td>5353.25</td>
<td>3.11%</td>
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<tr>
<td>LME Zinc 3 Month ($/t)</td>
<td>2093.00</td>
<td>2178.00</td>
<td>-3.9%</td>
<td>2416.00</td>
<td>-13.37%</td>
<td>1937.00</td>
<td>8.05%</td>
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<tr>
<td>Comex Silver (S.oz)</td>
<td>18.28</td>
<td>15.57</td>
<td>17.5%</td>
<td>22.18</td>
<td>-17.57%</td>
<td>14.10</td>
<td>29.67%</td>
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<tr>
<td>LIFFE Sugar (S/t)</td>
<td>393.40</td>
<td>391.20</td>
<td>0.6%</td>
<td>495.90</td>
<td>-20.67%</td>
<td>376.00</td>
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<tr>
<td>CBOT Soybean (cents/bushel)</td>
<td>972.75</td>
<td>1019.25</td>
<td>-4.6%</td>
<td>1536.75</td>
<td>-36.70%</td>
<td>904.00</td>
<td>7.61%</td>
</tr>
<tr>
<td>ICE Sugar (cents/lb)</td>
<td>15.17</td>
<td>14.52</td>
<td>4.5%</td>
<td>18.47</td>
<td>-17.87%</td>
<td>13.32</td>
<td>13.89%</td>
</tr>
<tr>
<td>LME Aluminium 3 Month ($/t)</td>
<td>1831.00</td>
<td>1852.50</td>
<td>-1.2%</td>
<td>2191.50</td>
<td>-13.61%</td>
<td>1671.25</td>
<td>9.56%</td>
</tr>
<tr>
<td>ICE Coffee (cents/lb)</td>
<td>162.45</td>
<td>166.60</td>
<td>-2.5%</td>
<td>225.50</td>
<td>-27.96%</td>
<td>113.15</td>
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<td>CBOT Corn (cents/bushel)</td>
<td>386.75</td>
<td>397.00</td>
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<td>519.50</td>
<td>-25.55%</td>
<td>318.25</td>
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<td>Comex Gold (S/oz)</td>
<td>1292.60</td>
<td>1184.10</td>
<td>9.2%</td>
<td>1392.60</td>
<td>-7.18%</td>
<td>1130.40</td>
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<td>CBOT Soy Meal ($/t)</td>
<td>331.50</td>
<td>364.60</td>
<td>-9.1%</td>
<td>509.40</td>
<td>-34.92%</td>
<td>302.00</td>
<td>9.77%</td>
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<tr>
<td>LME Lead 3 Month ($/t)</td>
<td>1845.50</td>
<td>1858.00</td>
<td>-0.7%</td>
<td>2307.00</td>
<td>-20.00%</td>
<td>1743.00</td>
<td>5.88%</td>
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<tr>
<td>LME Nickel 3 Month ($/t)</td>
<td>14350.00</td>
<td>15150.00</td>
<td>-5.3%</td>
<td>21625.00</td>
<td>-33.64%</td>
<td>13650.00</td>
<td>5.13%</td>
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<tr>
<td>Nymex Natural Gas ($/mmbtu)</td>
<td>2.99</td>
<td>2.89</td>
<td>3.4%</td>
<td>6.49</td>
<td>-54.01%</td>
<td>2.77</td>
<td>7.95%</td>
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<tr>
<td>CBOT Wheat (cents/bushel)</td>
<td>530.00</td>
<td>589.75</td>
<td>-10.1%</td>
<td>735.00</td>
<td>-27.89%</td>
<td>466.25</td>
<td>13.67%</td>
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</tbody>
</table>

### Commodities: January Gainers and Losers (%)

**MCX**
- Silver: 11.0%
- Gold: 4.3%
- Mentha Oil: 0.5%
- Natural Gas: -3.3%
- Zinc: -6.8%
- Cotton: -10.5%
- Crude Oil: -15.8%

**NCDEX**
- Soybean: -1.0%
- Jeera: -1.2%
- Wheat: -3.1%
- Soy Oil: -3.3%
- Turmeric: -9.2%
- Rm Seed: -21.4%
- Barley: -23.5%
All figures as on January 23, 2015

**NIFTY TOP**

<table>
<thead>
<tr>
<th>Company</th>
<th>January 23, 2015</th>
<th>December 31, 2014</th>
<th>(%) Change</th>
</tr>
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<tbody>
<tr>
<td>Hindustan Unilever</td>
<td>965.30</td>
<td>760.10</td>
<td>27.00</td>
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<tr>
<td>Tata Motors</td>
<td>588.45</td>
<td>495.55</td>
<td>18.75</td>
</tr>
<tr>
<td>Siemens India</td>
<td>1039.00</td>
<td>901.23</td>
<td>15.29</td>
</tr>
<tr>
<td>Larsen &amp; Toubro</td>
<td>1711.30</td>
<td>1494.65</td>
<td>14.50</td>
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<tr>
<td>DLF</td>
<td>156.70</td>
<td>137.40</td>
<td>14.05</td>
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**NIFTY BOTTOM**

<table>
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<th>Company</th>
<th>January 23, 2015</th>
<th>December 31, 2014</th>
<th>(%) Change</th>
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<tbody>
<tr>
<td>Hindalco Industries</td>
<td>144.80</td>
<td>157.55</td>
<td>-8.09</td>
</tr>
<tr>
<td>Hero Honda Motors</td>
<td>2862.80</td>
<td>3106.65</td>
<td>-7.85</td>
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<td>Punjab National Bank</td>
<td>207.15</td>
<td>219.10</td>
<td>-5.45</td>
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<td>Reliance Infrastructure</td>
<td>484.25</td>
<td>512.05</td>
<td>-5.43</td>
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<td>Steel Authority of India</td>
<td>78.15</td>
<td>82.55</td>
<td>-5.33</td>
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</table>

**NIFTY MOVEMENT**

**CNX-MIDCAP MOVEMENT**

**BSE BANKEX**

**BSE CAPITAL GOODS**

**DOW JONES**

**HANG SENG**

The new lifetime high scaled by Nify in January.

Markets were fueled by domestic RBI rate cut and added global cues like European Central Bank’s stimulus measures.
Gain in COMEX Silver. Swiss central bank action to decouple the Swiss Franc from the Euro infused fears of uncertainty in global currency markets. Later, ECB adding additional stimulus too helped the commodity to raise upward.
## Performance of Mutual Funds

### Equity Diversified

<table>
<thead>
<tr>
<th>Mutual Fund Scheme</th>
<th>NAV</th>
<th>1 yr</th>
<th>2 yr</th>
<th>3 yr</th>
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<tbody>
<tr>
<td>Franklin (I) Smaller Cos (G)</td>
<td>38.10</td>
<td>10.16</td>
<td>50.2</td>
<td>45.9</td>
</tr>
<tr>
<td>Reliance Small Cap Fund (G)</td>
<td>25.40</td>
<td>11.22</td>
<td>56.9</td>
<td>44.2</td>
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<td>Can Robeco Emerg-Equities (G)</td>
<td>58.23</td>
<td>111.1</td>
<td>48.0</td>
<td>42.3</td>
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<td>Mirae Emerging Bluechip Fund (G)</td>
<td>29.05</td>
<td>93.4</td>
<td>45.5</td>
<td>40.6</td>
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<tr>
<td>Principal Emerging Bluechip(G)</td>
<td>67.18</td>
<td>93.2</td>
<td>41.4</td>
<td>40.6</td>
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<td>UTI Mid Cap (G)</td>
<td>77.70</td>
<td>99.3</td>
<td>49.8</td>
<td>40.5</td>
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<td>Franklin Build India Fund (G)</td>
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<td>111.7</td>
<td>47.0</td>
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<td>DSP-BR Micro Cap Fund - RP (G)</td>
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<td>40.1</td>
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<td>SBI Magnum Midcap Fund (G)</td>
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<td>76.3</td>
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<td>JPMorgan (I) Smaller Co. (G)</td>
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<td>100.4</td>
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<td>40.0</td>
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<td>Franklin High Growth Cos (G)</td>
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<td>39.4</td>
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<td>BNP Paribas Mid Cap Fund (G)</td>
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<td>Sundaram SMILE Fund (G)</td>
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<td>46.5</td>
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<td>49.9</td>
<td>47.2</td>
<td>38.4</td>
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<td>104.1</td>
<td>46.4</td>
<td>37.0</td>
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<td>Religare Invesco Mid N SmallCap (G)</td>
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<td>85.8</td>
<td>41.7</td>
<td>37.7</td>
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<td>Tata Mid Cap Growth Fund (G)</td>
<td>98.99</td>
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<td>ICICI Pru Value Discovery Fund (G)</td>
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<td>ICICI Pru MidCap Fund (G)</td>
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<tr>
<td>L&amp;T Midcap Fund (G)</td>
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<td>HDFC MidCap Opportunities (G)</td>
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### ELSS

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### Equity (Banking)

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Source: moneycontrol.com; Note: All returns are annualized and expressed in percentage; all NAVs as on January 23, 2015
## Performance of Mutual Funds

### Equity (FMCG)

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### Miscellaneous

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<td>UTI Transport &amp; Logistics (G)</td>
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<tr>
<td>Reliance Media &amp; Entertain (G)</td>
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### Equity (Tech)

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<td>Franklin Infotech Fund (G)</td>
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### Equity (Pharma)

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<td>SBI Pharma Fund (G)</td>
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<td>UTI Pharma &amp; Health (G)</td>
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### Balanced

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<td>SBI Magnum Balanced Fund (G)</td>
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<td>L&amp;T Prudence Fund (G)</td>
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### MIP

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Source: moneycontrol.com; Note: All returns are annualized and expressed in percentage; all NAVs as on January 23, 2015
The Anatomy of a Crash

How and why the financial markets crash

By Vivek Kaul

When the policy is to put out all fires, it leads to a situation wherein the trees age. Old trees are not replaced by new trees. At the same time, dead wood, grass, twigs, and dead leaves keep accumulating. All this makes for excellent fuel for any fire. Hence, there is combustible material everywhere and even a single strike of lightning or a cigarette butt can start off a big fire.

It is very important to let small forest fires run so that all the combustible material that can lead to a big forest fire keeps getting burnt out. There is striking example of the impact different fire control policies can have. The state of California in the United States and Baja California in Mexico have very similar vegetation and forests but different fire control policies. California puts out small fires regularly. Baja California does not. Hence, Baja California sees many small fires. But there are no big fires. On the other hand, California has a few small fires, but it experiences big fires too. This is primarily because California keeps putting out the small fires which leads to bigger fires. Smaller fires clear the brush, enrich the soil and also unlock pine seeds.

What do we learn from this? As John Mauldin and Jonathan Tepper write in Endgame—The End of the Debt Super-cycle and How It Changes Everything:

“Global markets and economies are like forest fires... Avoiding small problems creates greater systemic problems when brush between the trees build up... Trying to micro-manage small fires in central banking and fiscal policy leads to growing confidence by risk takers, so you get fewer small fires and paradoxically, a greater chance of a major catastrophic fire.”

Nassim Nicholas Taleb writes along similar lines in Anti Fragile:

“Some class of rash, even suicidal, risk taking is healthy for the economy—under the condition that not all people take the same risks and that these risks remain small and localised. Now, by disrupting the model ... with bailouts, governments typically favour a certain class of firms that are large enough to require being saved in order to avoid contagion to other businesses... People have difficulty realising that the solution is building a system in which anybody’s fall can drag others down—for continuous failures work to preserve the system.”

As we have seen throughout the book, the Federal Reserve has been dousing small fires constantly. And the dousing of these small fires led to the big fire of 2008. Ironically, the Federal Reserve continues to douse small fires. The mis-
takes that led to the crisis are being made again. Trying to prop up the housing market and not allowing housing prices to fall as fast as they would have, is a part of the Fed strategy of dousing fires.

Hence, what has happened is exactly the opposite of what Taleb suggests, that “continuous failures” work to preserve a system. In fact, central banks around the developed world cut interest rates to close to zero percent after the crisis started and have since maintained them. This is the exact opposite of what [Walter] Bagehot had suggested. Keeping in mind the issue of moral hazard, he had suggested that the Bank of England should be lending money at a very high rate of interest so as to keep speculators away.

Western central banks have kept interest rates at very low levels and allowed speculators to borrow at very low rates of interest. This has led to bubbles in stock markets and financial markets all over the world.

A major factor that leads to banks or financial institutions being rescued is the fact that over the years, not enough of them have been let go. So, we do not really know clearly enough how things are likely to play out when a bank or financial institution is allowed to go bust. Sadly, unlike physical sciences wherein things can be tested out in a laboratory, the same cannot be done in the case of economics. Any learning has to occur from real life.

A recent example however does offer some learning on this front. Several of the biggest banks in Iceland went bust in October 2008. The country, instead of bailing them out, let them fail. It is now doing much better in comparison with other countries in Europe which bailed out their banks, in particular, Ireland. As Blyth writes in *Austerity—The History of a Dangerous Idea*: “Iceland not only survived letting its banks go bust, it became a healthier and more equal society in doing so.”

Of course, Iceland is a very small country with a population of just 300,000. What we should be looking at is the fact that the banks that were allowed to fail were ten times the size of the Icelandic economy.

As Blyth writes: “Although Iceland is the definition of tiny, what matters in this case is not the size of the country but its population, or the size of the banks relative to the size of the economy, its bank assets-to-GDP ratio. In the United States, that ratio was just over one-to-one. Iceland had ten times the bust of the United States’ worst-case-ever scenario and it not only survived, it prospered.”

In fact, an interesting analogy from football (i.e., soccer) can be used to explain why it is difficult to let banks and other financial institutions fail. A football goalkeeper trying to save a penalty jumps toward his left or the right all the time. He stays at the center only 6.3% of the time, research points out, even though, 28.7% of the time, the penalty taker is likely to blast the ball straight, aimed toward the center of the goal.

Hence, goalkeepers are more likely to save the goal if they stay where they are and do not jump to their left or right. The trouble is that this strategy will make them look smart only on those occasions when the ball is hit straight. They are likely to be very embarrassed at other times when the ball hits the back of the net on either their left or right. Just standing there, waiting for the ball to be hit straight and not jumping toward their left or right shows a lack of effort on the part of the goalkeeper, and no goalkeeper would want to be accused of this.

Along similar lines, when banks and financial institutions are in trouble, the governments and central banks need to show that they are making an effort to save them. Letting them fail is a very difficult option because then they will be accused of not trying. And like a football goalkeeper, no government or central bank would want to be in that situation.
Monthly expenses of ₹ 30,000/- today, could be ₹ 200,000/- after 30 years.

Reliance Retirement Fund
(An open ended notified tax saving cum pension scheme with no assured returns)

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Reliance Retirement Fund offers two schemes: Reliance Retirement Fund – Wealth Creation Scheme & Reliance Retirement Fund – Income Generation Scheme. Investments in the schemes are subject to a lock-in for 5 years from the date of allotment, subject to the terms & conditions with respect to switches.

The Central Government specifies Reliance Retirement Fund as a pension fund for the purpose of clause (xiv) of sub-section (2) of section 80C of the Income Tax Act, 1961 (43 of 1961) for the assessment year 2015-16 and subsequent assessment years. As per provision of Sec. 80C (2) (xiv) of the Income Tax Act 1961 for FY 2014-15, any individual whose taxable income is less than ₹1 crore and has made investment of ₹1.5 lakhs in notified pension fund set up by a Mutual Fund, can save tax up to ₹46,350/- including applicable cess. Tax saving will be proportionately reduced subject to the taxable income and investments. The tax benefits are as per the current income tax laws and rules and any other current applicable law. Investors are advised to consult their tax advisors before investing in such schemes.

Reliance Retirement Fund – Wealth Creation Scheme
This product is suitable for investors who are seeking:
- Long term growth and capital appreciation
- Investing primarily in equity and equity related instruments and balance in fixed-income securities so as to help the investor in achieving the retirement goals • High risk (BROWN)
- Investors should consult their financial advisors if in doubt about whether the product is suitable for them.

Reliance Retirement Fund – Income Generation Scheme
This product is suitable for investors who are seeking:
- Income over long term with capital growth
- Investing primarily in fixed income securities and balance in equity and equity related instruments so as to help the investor in achieving the retirement goals • Medium risk (YELLOW)
- Investors should consult their financial advisors if in doubt about whether the product is suitable for them.

Note: Risk is represented as:
- (BLUE) investors understand that their principal will be at low risk
- (YELLOW) investors understand that their principal will be at medium risk
- (BROWN) investors understand that their principal will be at high risk

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