ArihantCapital
Generating Wealth

Arihant PLATINUM

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MAY 2020

VOLUME XIII

MONTHLY MARKET UPDATE

- In April 2020, Domestic market rebounded sharply with benchmark Sensex and Nifty Index ended the month with 22% & 19.5% gains respectively. Amid the Covid-19 pandemic, In India, major cities like Mumbai, Delhi are still struggling. Government has categorised area with Red, Green and Orange Zones and relax lockdown rules in Orange and Green Zone. Though, area wise 30% of the area comes under Red Zone but over 40% of population and over 50% of GDP is contributed by this Red Zone.

- Nifty Pharma and Auto were the best performing sectors, while Nifty Realty, Nifty PSU Bank and FMCG experienced lessor gain. Nifty Pharma was the top Performer at 32.7%, followed by Nifty Auto with 26.7% gain for the month. Other major sectoral indices saw good recovery in the month of April. Nifty Metal index gained by 19.7%, followed by Nifty Media, which rose by 15.8%. Nifty NBFCs & Auto gained by 18.2% respectively.

- Reserve Bank of India (RBI) on April 17 cut the reverse repo rate by 25 basis points (bps) to 3.75 per cent versus 4% earlier. The central bank, however, kept all key rate, including repo rate, unchanged. On April 15, Rs 6.91 crore surplus was in the system. To allow banks to use this surplus into economy, reverse repo rate is being reduced by 25 bps from 4% to 3.75% under Liquidity adjustment facility (LAF).

- Moody's Investors Service on 28th April 2020 slashed India growth forecast for calendar year 2020 to 0.2%, from 2.5 % projected in March.For 2021, Moody expects India's growth to rebound to 6.2%.It expects G-20 advanced economies as a group to contract by 5.8% in 2020. Even with a gradual recovery, 2021 real GDP in most advanced economies is expected to be below pre-coronaviruslevels.

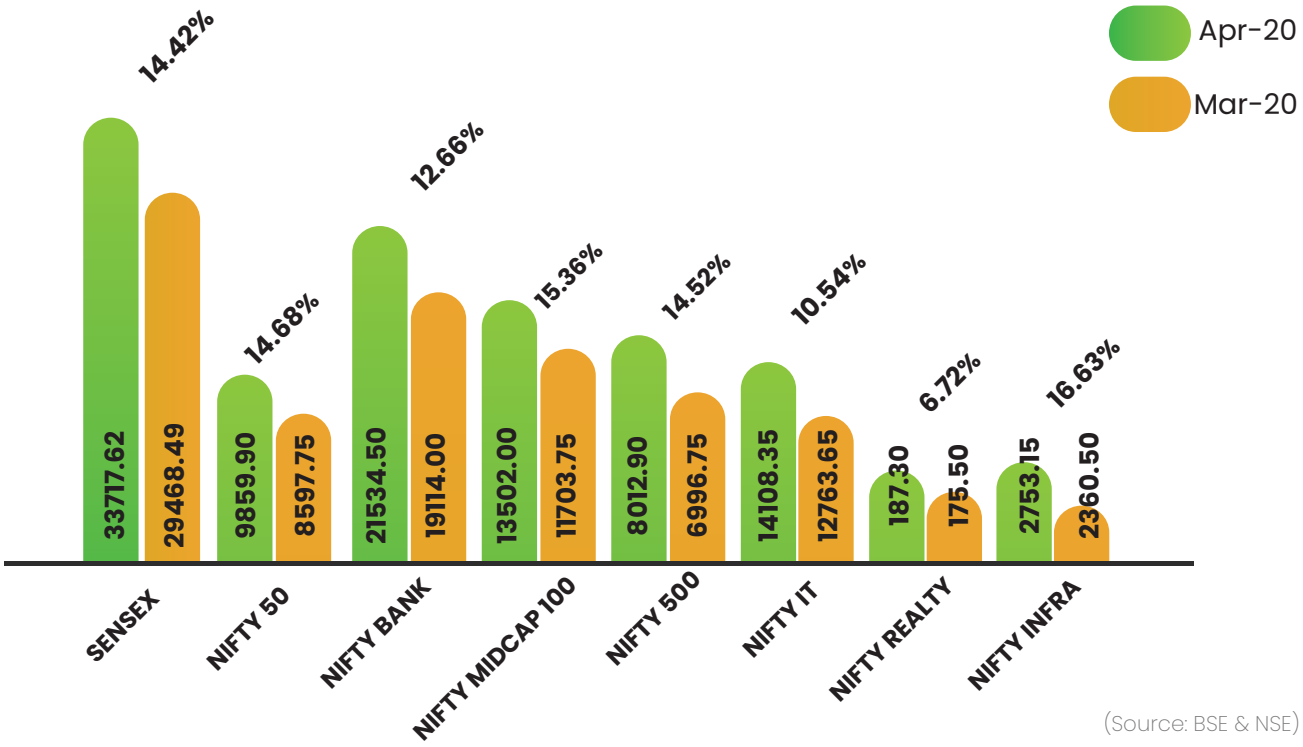
- In April 2020, Worldwide, we witnessed positive developments related to Covid-19 where in new additions seem to have peaked out and Europe saw gradual decline in new additions. Volatility declined from extreme levels. Developed stock markets outperformed emerging markets and growth stocks outperformed value. The S&P 500 index returned 12.8% and has recovered close to 60% of its prior decline.In commodity markets, the oil price remained volatile despite the agreement on production cuts. WTI crude dropped -7.2%, while gold went rose by 6.46% The USD/INR loss of -3.04% in the month of April 2020.

- The Federal Reserve left rates unchanged at 0-0.25bps at its April meeting and suggested it would not be raising them anytime soon as the virus takes a huge toll on economic growth. US' Nasdaq 16.71%, UK's FTSE and US' Dow Jones closed in positive territory with 6.42% & 12.69% respectively. Whereas, Hong Kong's Hang Seng, Germany's DAX, ended the month with positive territory of6.06%, 12.77% respectively, Japan's Nikkei gained 10.10%.

- Yield of 10 yr government bond closes at 5.79%

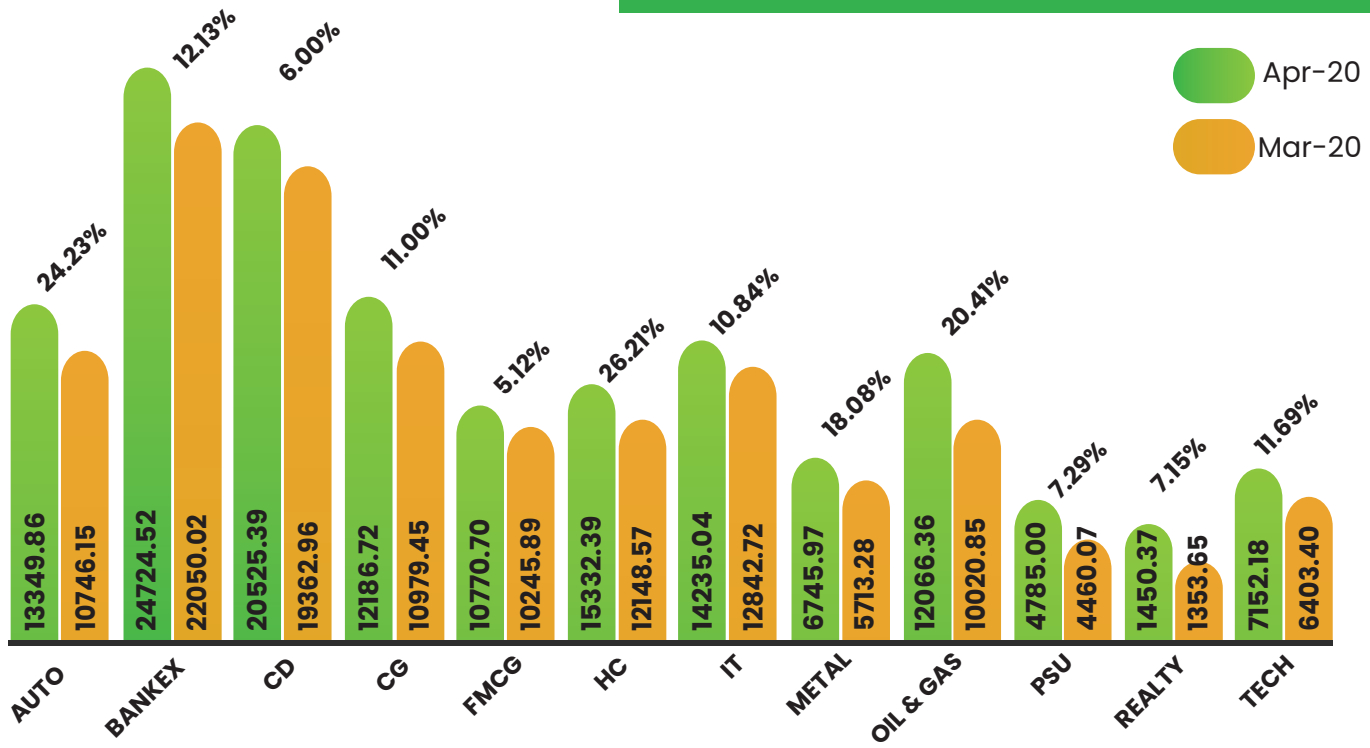
MONTHLY INDICES PERFORMANCE

INDIAN INDICES



(Source: BSE & NSE)

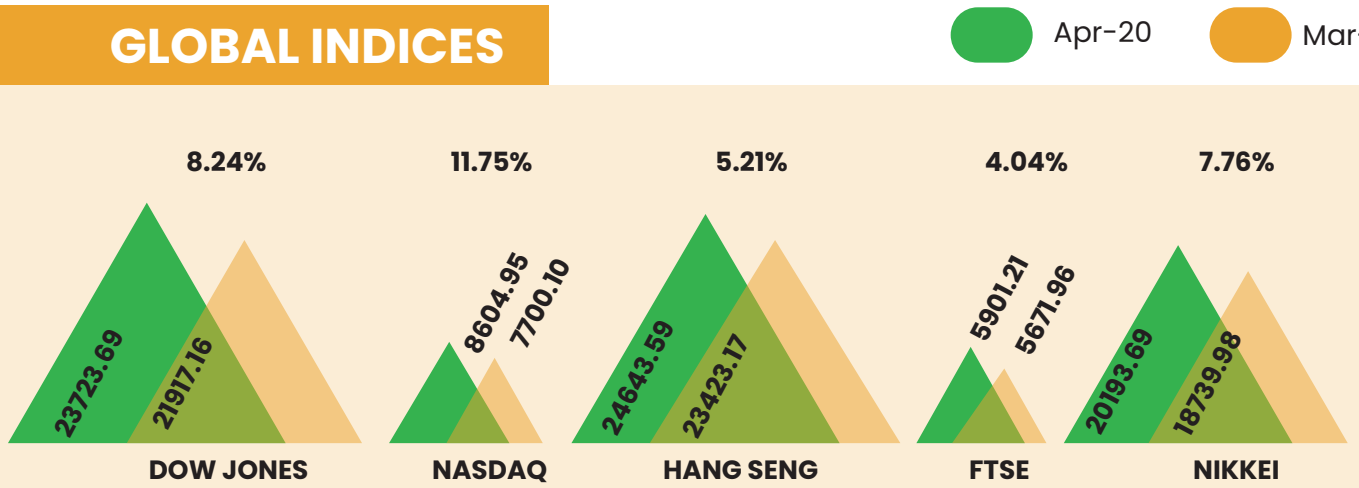
BSE SECTORAL INDICES



(Source: BSE & NSE)

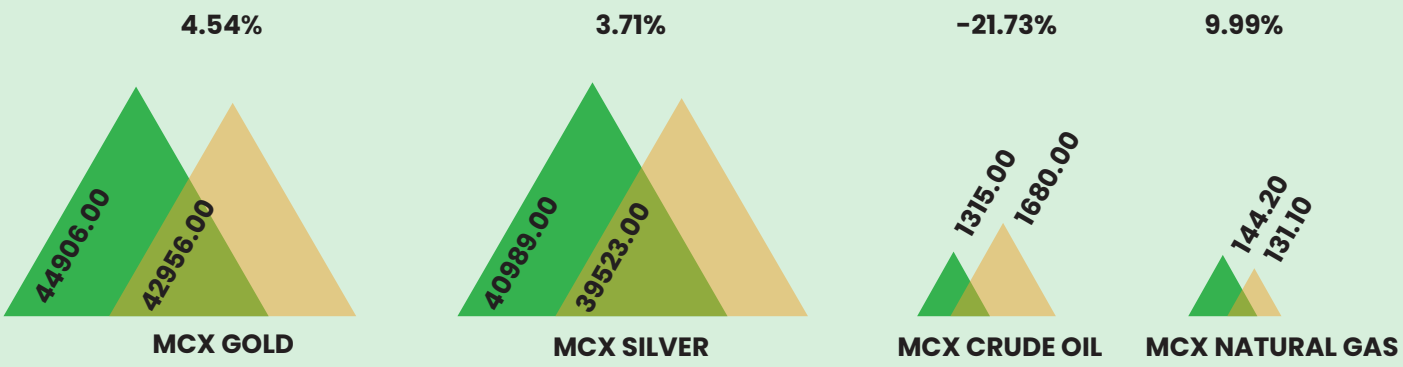
MONTHLY INDICES PERFORMANCE

GLOBAL INDICES



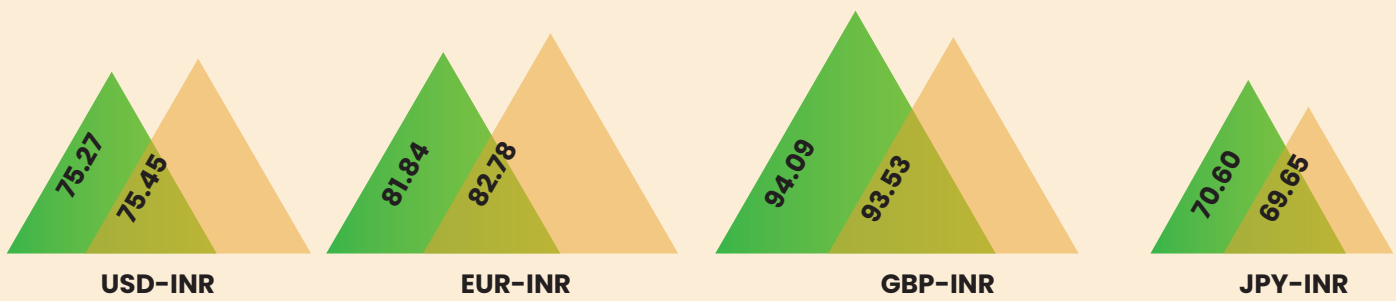
(Source: CNN)

COMMODITIES



(Source: Falcon)

FOREX



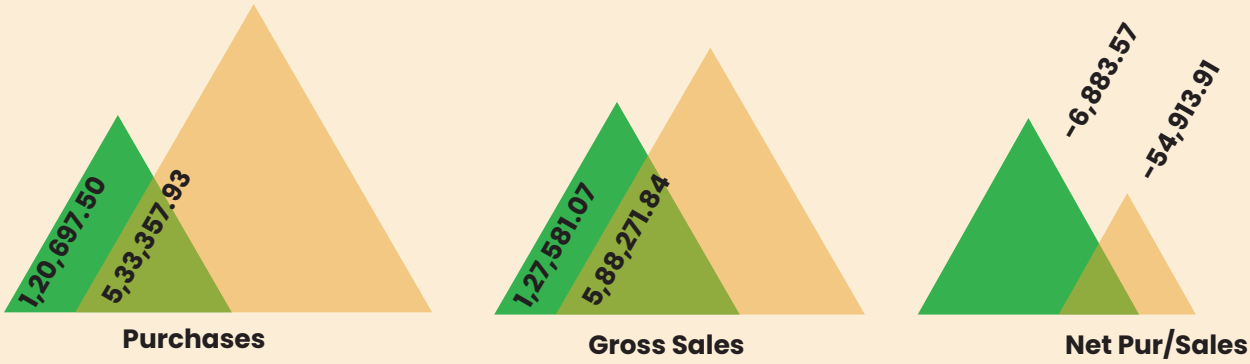
(Source: Falcon)

MONTHLY INDICES PERFORMANCE

FII Activity (Rs cr)

Total for Apr 2020 | Total for 2020

*Till Apr 2020



(Source: SEBI)

Total for Apr 2020 | Total for 2020

MF Activity (Rs cr)

*Till 29th Apr 2020

(Source: SEBI)

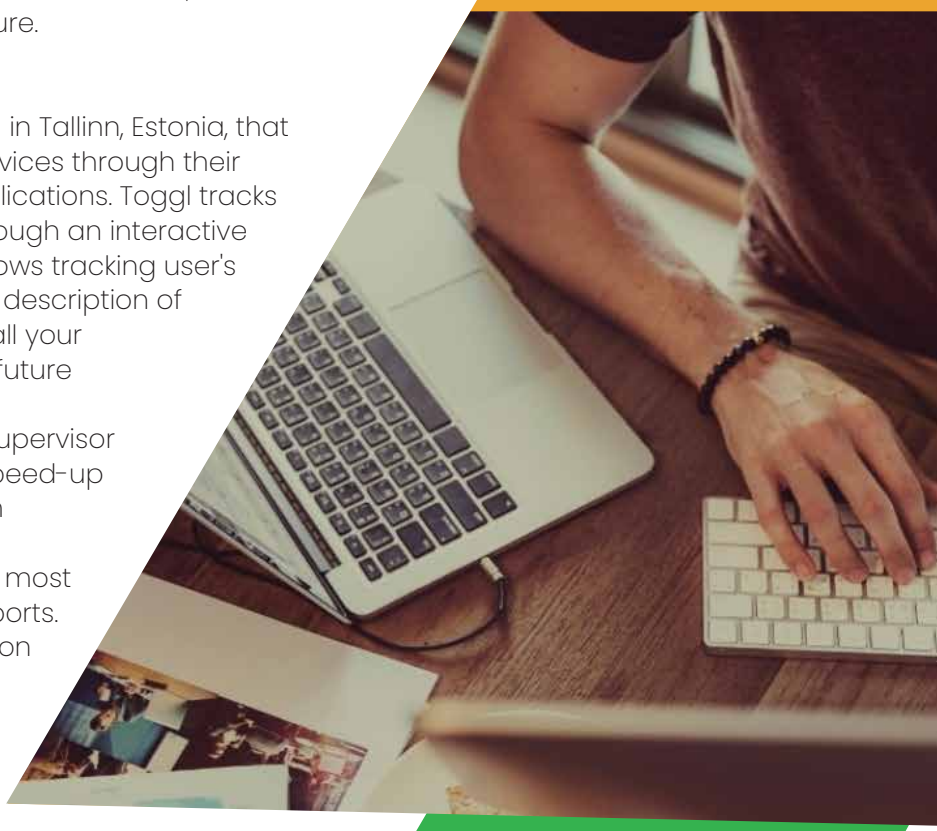
WORKING FROM HOME? TOOLS THAT MAY COME IN HANDY

The spread of Covid-19 across the world has made the organisations shift their work from office to home. However, work from home(WFH) has its own set of challenges to tackle with and here are some of the tools which can help people working from home to a great extent .
With the advancement in the technology employees can telecommute from home on days and enable them to work from remote workplaces.

Here are some of the tools which may come in handy when most of the employees have shifted to work from home regime.

- **TRELLO:**
Trello is the easy, free, flexible, and visual way to manage your projects and organize anything, trusted by millions of people from all over the world. Trello is headquartered in New York City and distributed all over the world. We embrace a remote-working culture that has helped us to build an amazing product that fits the needs of modern knowledge workers, super-organized parents, and efficient project planners alike.
Trello organizes your projects into boards and tells you what's being worked on, who's working on what, and where something is in a process. You can label and tag projects, track their progress, quickly retrieve information, archive older projects, and have discussions using Trello. Moreover, it's all SSL encrypted to make sure all your data is secure.

- **TOGGL:**
Toggl is a time tracking app, headquartered in Tallinn, Estonia, that offers online time tracking and reporting services through their website along with mobile and desktop applications. Toggl tracks time based on tasks and projects, either through an interactive task time or through manual entry. Toggl allows tracking user's online apps. Toggl lets you add notes to the description of each entry so that you can keep a track of all your work-related activities and record them for future reference.
Furthermore, if you are an entrepreneur or supervisor trying to manage a team, then Toggl can speed-up time-consuming tasks such as inviting team members to your project, keeping a track of everyone's time and letting you know where most of the time is being invested via detailed reports. That wat you can aptly optimize time spent on tasks to ensure maximum productivity.



- **WIJUNGLE:**
It provides Unified Network Security Gateway to organizations across the globe. WiJungle is available in the appliance and software form factor. One can purchase the software and install it in a hardware machine and further enables the VPN connectivity between remote employees and office machines as well as between two different offices to implement a business continuity plan. The software is available on annual, triennial and quinquennial license basis and price varies with users.

5 THINGS TO HELP YOU BUILD AN EMERGENCY FUND FROM SCRATCH

Are you one of those investors who never bothered to put an emergency corpus in place? Or were you unfortunate enough to spend the money on an emergency just before the covid-19 crisis broke out? In either case, you may be worried now as the possibilities of a job loss or a health emergency loom large as the covid-19 pandemic rages on.

In this type of situation, you need 12 months of living expenses, including EMIs, as emergency fund. If there are two earning members in your family, it can be for six months. If you don't have this, create it first. You can even stop some ongoing investment, till you create the emergency fund.

But instead of panicking, what can help you is looking inwards—towards your own resources. Often, we stash away little amounts of money in products or accounts that we stop accessing and eventually forget about it. Now is the time to take stock of each of these.

However, not all of these options may work if you are already in a dire situation and need money immediately. Here's a checklist to help you in case you preparing for the near future.

SAVINGS BANK ACCOUNTS

It's not uncommon to have multiple bank accounts. Every time you changed a job in the past, you may have added another savings account to your list. Then, there are joint accounts with parents or other relatives that are often not used.
Take stock of all your bank accounts and check whether you need all of them. In most cases, you don't need more than two accounts. Close all other unwanted accounts and get the balance in those into your main account and keep it as emergency fund.

However, Some people have dormant accounts in other cities. In the current lockdown situation, it may not be possible to withdraw money immediately, unless you have internet banking, which may not be the case in case it's an old, forgotten account. Reach out to your bank nevertheless and explore your options.

GIFTED DEPOSITS

A lot of parents, grandparents or close relatives open fixed deposit accounts in the names of children and gift them when they are starting out on their own. Figure out if you have any such account or any deposit you may have made for your own short-term goals and add up to the corpus.
Some parents even like to put in a little extra in their children's (who are minor) accounts as a buffer. In extreme cases, you can look at the surplus you may have in a minor's bank account, but this should ideally be used as a last resort.

FAMILY GOLD

Traditionally, Indians like to invest in physical gold and often pass it on to the next generations. In olden days, the idea of accumulating gold was to ensure liquidity at the time of a crisis such as the present one.
If you are unable to reach your targeted corpus after exhausting all the above options, consider liquidating gold. In extreme situations, you may consider selling a part of family gold to create an emergency fund.
You can also sell gold jewellery pieces that you don't use or you would have preferred to exchange in the past.
Another option is to keep it as a back-up. Know that you would be able to liquidate this asset in case you were to face an emergency. In such a situation, it may help to get the value of the gold you hold assessed by an expert—you will at least be able to notionally add the value to your emergency corpus.

5 THINGS TO HELP YOU BUILD AN EMERGENCY FUND FROM SCRATCH

OLD PF ACCOUNTS

While the Universal Account Number (UAN) has now helped employees streamline their Employees' Provident Fund (EPF) accounts, the earlier paperwork involved in transferring a PF account from one employer to another was not that simple. As a result, a lot of employees sometimes chose to forego the EPF amount if the savings were small to avoid the paperwork.

Some people have old EPF accounts, with smaller balance accrued in the early part of our careers, which are not tied to UAN. Ideally, you should transfer the balance to the current UAN account, but in case you have an urgent need, you can withdraw the balance from those accounts.

While EPF should be the last resort for tapping for emergency needs, a person can withdraw up to 75% of the corpus post one month of unemployment and 100% post two months of unemployment.

If you are no longer in the formal workforce, then withdrawing old forgotten EPF amounts can shore up your emergency corpus and also help you spring clean your finances.

But again, if you need money in a hurry, this may not serve the purpose as the process may take time. Do remember though that the government has allowed covid-related withdrawals from EPF, and the money can be credited as quickly as three days

TAKING A LOAN FROM PARENTS OR CLOSE RELATIVES

Once you have exhausted all the avenues that you may have, you can consider taking a loan from your parents or other close relatives, especially if you need money immediately. You can always borrow money from your parents or brothers or sisters which you can return when your situation improves. This has worked for a lot of people. It may look difficult to build a corpus large enough to meet six months to a year of your expenses, especially as the value of your equity investments would have eroded given the current market levels. But if you take stock of some of the savings or investments that you normally don't include in your asset allocation, you may find that you would not be in as big a soup as you imagined. Since some of these options may take time to deliver, start the process immediately even if you are not in an emergency situation right now.

MAKE YOUR MUTUAL FUND PORTFOLIO LEAN AND SHARP

If you cannot count the mutual fund schemes that you have invested in on your fingers, then you have one too many. A large number of mutual fund schemes does not really add to the diversification benefits of your portfolio and may in fact be a drag on its performance. Chasing the previous year's best performer, believing an NFO to be a better deal, investing on recommendations without considering whether it fits in to your portfolio are all reasons why investors end up with an inflated portfolio. Do a fitness check for the schemes in your portfolio using these criteria to make sure they have a good reason to be part of it.

THE DUPLICATION TEST

If you have multiple funds investing in the same segment of the market, say large cap, you may be adding more of the same stock since these funds have to invest in a defined set of stocks. So, while you may believe yourself to have done what it takes to be diversified, you may actually be taking concentrated exposure to a few stocks. Similarly, investing in sector funds may duplicate the exposure that a diversified equity fund you hold already has to the sector. A multi-cap fund with a large cap focus may again look very much like a large cap fund. A hybrid fund will have allocations across asset classes. Look beyond how a fund is named or categorised and consider how the portfolio of each fund is exposed to different market capitalisation instead to see if there is any advantage of diversification in holding all these funds. Once investors see the duplication in their portfolio we suggest consolidating their holdings to a few well-performing consistent funds. Holding the same stocks or sectors across different schemes means you are increasing risks on one hand and on the other missing out on opportunities. Another risk is that when you hold a lot of funds in the same category you may end up holding the entire universe of stocks, say the 100 large cap stocks, and completely dilute the benefit of active fund management while paying the higher fees associated with it.

THE PERFORMANCE TEST

Use the performance test to cut down the clutter in each category. Look at the performance over a relevant period along with recent performance to identify consistent performers with risk profiles that suit the investor. Consider the performance relative to the benchmark, peers and how long the fund has been under-performing to rank funds that need to go. Some funds may be consistently good performers but the fund's strategy and style may be too risky for the investor. Find the right balance that is best suited for the investor's goals, time horizon and risk tolerance. We explain the impact of poor performing funds on the portfolio. Investors are then willing to exit and move to better performing funds and overcome their emotional attachment to certain selections.

THE RELEVANCE TEST

A fund must be relevant for the objectives that the investor is trying to meet. Funds that do not meet this criterion should face the axe. Funds that may have had a role earlier, say an ELSS fund used for tax savings in earning years but of no relevance in retirement, or, a token investment made in an international fund where the impact is negligible for the portfolio, are examples of investments that may not pass the relevance test.

Some investors like to hold funds focused on sectors they are employed in, like technology, and believe they are more comfortable with fortunes of the sector. You have to accommodate it to some extent.

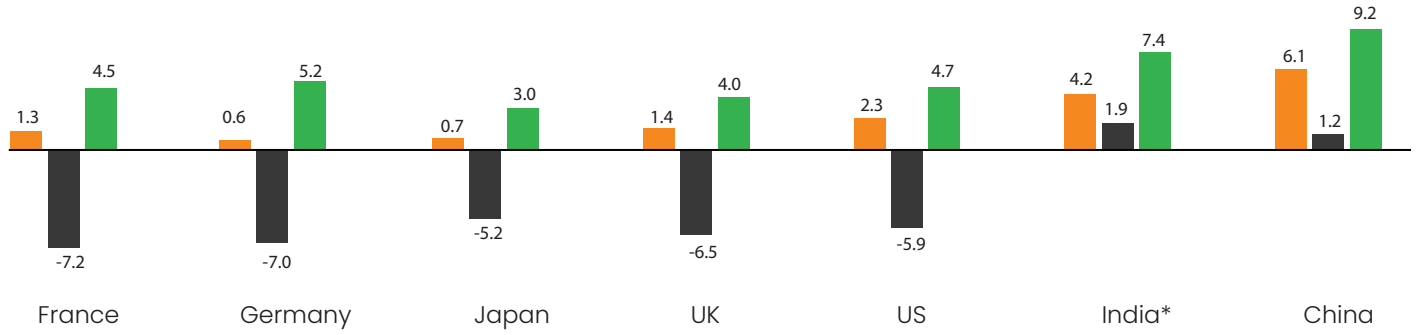
When you have an unwieldly portfolio, you loose track of the actual allocation to asset classes and sub-asset classes. And this means you may not be rebalancing correctly and managing risks and opportunities efficiently. Holding investments in under-performing funds means that your money is working less hard and moving them into funds that are actually aligned to your goals will give the portfolio the sharper edge it needs to get you to your goals.

THE TRAIL OF COVID-19 DESTRUCTION AND A RESULTING RECESSION

The Covid-19 pandemic is ravaging the world economy, and has already infected 41,16,767 people. While 14,18,017 have died because of the pandemic, 2,82,872 have recovered. So, humanity will eventually prevail . However, what the pandemic will leave behind is a trail of destruction in economic activity across the world. The global economy will contract, except maybe China and India **(chart 1)**. According to the International Monetary Fund (IMF), the pandemic is expected to cause the biggest recession since the Great Depression. Consequently, Budget deficits of countries will widen, as they will spend more on health care and emergency economic packages to arrest the economic meltdown **(chart 2)**. That will also mean that these countries will have to borrow heavily.

1: THE GREAT CONTRACTION

(Real GDP, annual Percent Change)



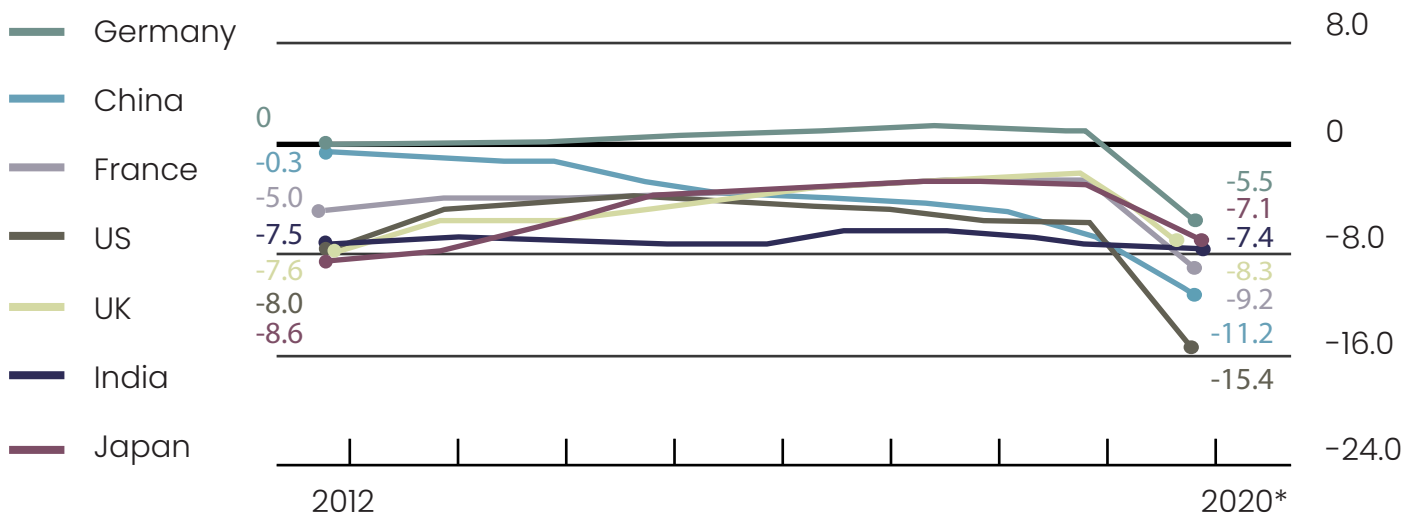
*Projections

Source :World Economic Outlook, IMF April 2020

2: COUNTRIES WILL WITNESS HEAVY FISCAL PRESSURE

General government fiscal balance

(% of GDP)



* Projections

Source: Fiscal Monitor, IMF

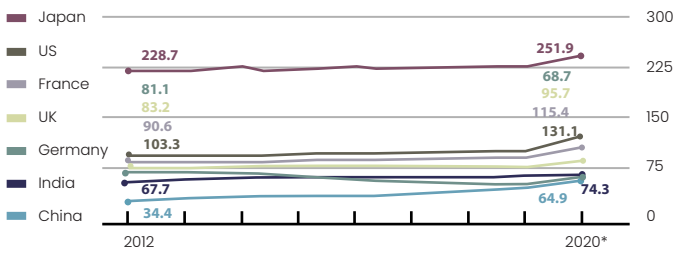
THE TRAIL OF COVID-19 DESTRUCTION AND A RESULTING RECESSION

This will push up the national debt in most countries **(chart 3).**

And as the world economy shows signs of recovery, there would be immense competition among emerging markets to export their products to the developed economies. Here, the real effective exchange rate (REER), which measures a currency's strength vis-à-vis other trade partners, might come into play. Countries will probably try to get into a currency war and depreciate their currencies fast in a classic beggar thy neighbour move **(chart 4)**.
Given that India's REER is relatively stable, it may need to weaken the rupee substantially to match those of its export competitors. But when will the world recover remains a bigger question. The slowdown was already in the making, even before the Covid-19 pandemic struck the global economy. Negative bond yields in some countries were reflecting the economic weakness **(chart 5)**.

3: PUBLIC DEBT WILL RISE

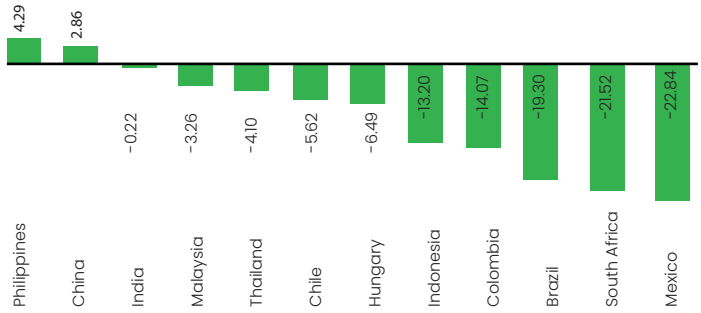
General government debt (% of GDP)



Source: Fiscal Monitor, IMF

4: CURRENCY WOULD PLAY A ROLE

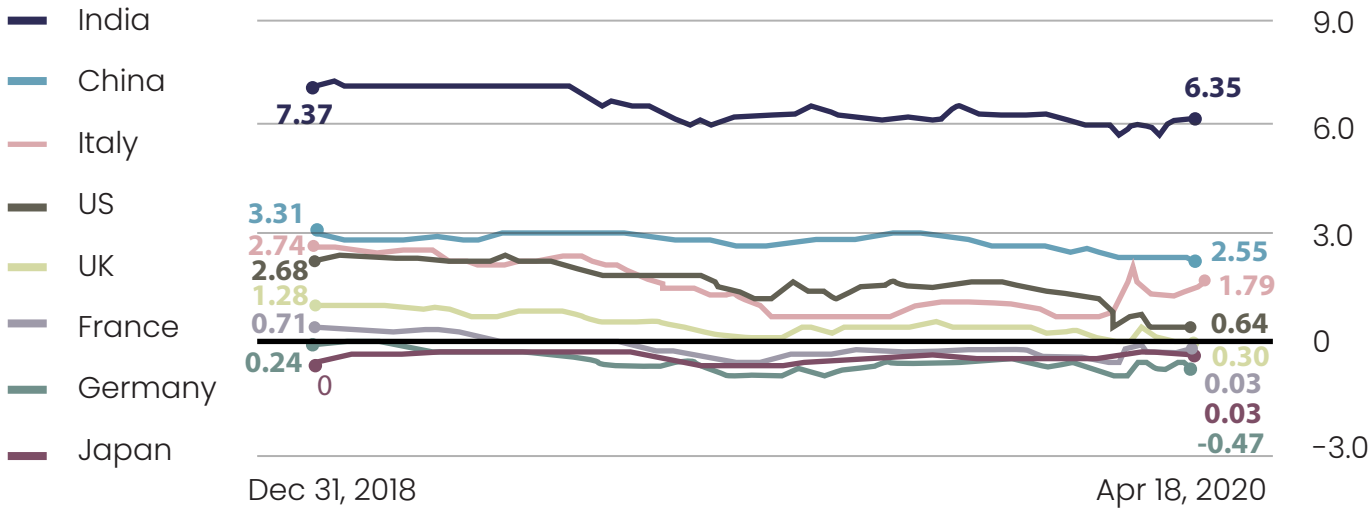
Real effective exchange rate changes since December 31, 2019



Source: World Economic Outlook, IMF April 2020

5: FLIGHT TO SAFETY

10-year G-sec yields (%)



Source: Bloomberg

WRONG ADVICE CAN UPSET MONEY GOALS

Mumbai-based Rajat Ghosal, 38, started working in 2004 and was advised by his parents to invest in traditional insurance policies. Until 2015, when he learnt about mutual funds, traditional insurance policies were his only investments. "A few of my friends were investing in mutual funds but by then it was too late because I'd already parked a large chunk of my money in LIC without evaluating the real returns," said Ghosal, a business process consultant. Though not in a big way, Ghosal started investing in mutual funds, but didn't really put too much thought into picking the right funds. He went with the funds that an online platform recommended.

In 2016, Ghosal moved to the UAE for a year. When he got back, he invested all his savings in mutual funds on the advice of a "no-fee financial planner". But this didn't go down too well. "In 2017, I saw a report by the National Stock Exchange which showed how much commission brokers get. I had invested about ₹15 lakh and paid 1% as the commission, which is almost ₹15,000. I realized I was being scammed because he was actually a broker and not a financial planner," said Ghosal.

DAMAGE CONTROL

Once Ghosal and his wife Antara realized the need for credible advice, they started following the advice offered by Jitendra Suhane, a Financial Planner and adviser from Arihant Capital Market Limited, on social media. After about a year, they got in touch with him to streamline their financial life. "Their mutual fund portfolio was completely messed up with a lot of funds, picked without any strategy. They also had many unwanted traditional life insurance products. So my priority was to streamline their portfolio by reducing the number of funds and insurance policies," said Suhane.

Before meeting Suhane, the couple's asset allocation was skewed too. They had a high exposure to real estate and debt (life insurance policies mostly). This left them with no money to invest in equities, which could help them achieve their long-term goals. Their equity exposure was just about 15%.

"I asked Ghosal to either surrender the insurance policies or convert them into paid-up immediately because the premium was almost 15% of his total income," said Suhane. In the process, Ghosal also lost some money (though it was a short-term setback) because the financial planner asked him to get rid of the policies which would be no good in the long term. They would neither help him create wealth nor meet his life insurance needs.
Since the couple already own a house, they don't have too many short-term needs. "I wanted to buy a car but I felt this would push up my monthly expenses, so I postponed it. I also plan to repay my home loan in the next 10 years, so I don't want to overburden myself," said Ghosal.

The couple has one child and is planning to have another one soon. They want to ensure that the education and wedding needs of both children are met. "Considering Ghosal's cash flow and accumulated wealth, I've advised him to prioritize retirement and children's education," said Suhane. Since the couple's investments were not in line with their goals, the planner explained to them the importance of prioritizing goals.

WRONG ADVICE CAN UPSET MONEY GOALS

FINDING SOLUTIONS

When Ghosal started investing in mutual funds, he went overboard and ended up investing in too many. His portfolio was largely tilted towards mid- and small-cap funds which Suhane said was unsafe, considering his appetite for risk. Also, Ghosal has stopped buying dividend-based funds, which he doesn't need. He is still in the process of exiting the ones he already has.
With the help of his financial planner, Ghosal is now restructuring his portfolio by bringing down the number of mutual funds. "I've asked him to stick to three to four equity funds, and a couple of debt funds," said Suhane.

It will take at least two more years for the couple to completely restructure their portfolio and streamline their investments. "I've already surrendered some policies. I had invested in about 15 mutual funds but I am now consolidating them as suggested by Suhane. A couple of funds are undergoing side-pocketing so I am still stuck," said Ghosal.

The current environment of market volatility and malfunctioning of banks does bother Ghosal. "To mitigate the risks, I am not keeping more than ₹5 lakh with one bank because in case something happens, I'll at least get the deposit cover of up to ₹5 lakh," said Ghosal. But when it comes to investments and the fear of losing money due to market volatility, Ghosal said he trusts his financial planner.

Taking a cue from the Ghosals, Suhane said it is very important to accept one's mistakes. The longer you take to fix your mistakes, the more difficult it becomes to achieve your financial goals. When it comes to money decisions, it is not easy to trust anyone. But if you feel like you lack the necessary knowledge, like the Ghosals did initially, working with a certified financial planner will help.

YOUR PANIC-CONTROL ACTION PLAN

SOFTWARES AND TOOLS

- **Manage your emotions**
  The worst mistake you can currently make is act in haste. Don't sell out just because the market is falling. Understand that volatility is a part and parcel of market and it is there to stay. It is this volatility that boosts your longterm returns.

- **Continue with your investments**
  Don't stop your SIPs. SIPs do best when the market falls and then rises. The SIPs that you do now will help you bring down your overall cost of investment, thus boosting your returns.

- **Stick to your asset allocation**
  Your asset allocation is your lighthouse. Stick to it. Rebalance your portfolio according to it. Don't shun equity. Shift from debt to equity as per your asset allocation. If you have mid- and small-cap funds in your asset mix, don't quit investing in them just because they appear riskier in the current phase.

- **Don't go overboard**
  Don't make the mistake of going overboard with your investments. While it's true that market corrections provide you an opportunity to average your investment cost, this should be done as per a preset plan and asset allocation. Getting too excited can result in disproportionate allocations, greater anxiety and missed opportunity should the market fall further.

- **Avoid exotic/ fancy investments**
  Stay away from sectoral/thematic funds or any other investment that seems to appeal in the current scenario. Many market fads become popular from time to time, but their appeal diminishes soon. It's best to stick to plain-vanilla multicap funds and allocate a portion to mid- and small-cap funds if your asset allocation permits you to.

- **Don't ignore your overall financial plan**
  Your financial plan has many pillars; investments in mutual funds are just one of them. Don't compromise on the other elements of your financial plan. Maintain sufficient emergency corpus. Get adequate health insurance for yourself and your family. Buy a good term plan. If you already have them in place, ensure their continuity.

SHOULD I CONTINUE WITH MY SIP?

Prashant (32) works in the legal department of telecommunications company. He is married and had one year old son. So far, he has been mainly saving through traditional products – bank fixed deposit , recurring deposit and Public Provident Fund (PPF). However, just about six months back for his retirement, he started an SIP of Rs.5000 in a multi-cap fund on the advice of a friend. But the recent fall in the stock market due to spread of COVID-19 Has made him extremely anxious. Here is what he should do

DO NOT STOP YOUR SIP

Prashant should not stop his SIPS. This is actually a good time for SIPS as he can invest when the market is cheaper. Later on when the markets recover investments made now will boost his overall returns

UNDERSTAND THAT EQUITIES ARE VOLATILE BY NATURE

Over short periods, equities can sharply move up or down. However If observed over a long period, their movement has been linearly upwards (see the chart The problem of volatility').

THE PROBLEM OF VOLATILITY

When observed as the market shows fluctuations but when observed once in the years, the fuations are smoothened

INCOME AND EXPENDITURE

Rs 60,000 Monthly income

Rs 30,000 Monthly expenses

Rs 12,000 House Rent

Rs 18,000 Surplus

WHAT HE HAS

FD/RD/savings account – Rs 1.7 lakh

PPF – Rs 1.2 lakh

Equity fund – Rs 30,000

WHAT IF HE STOPS HIS SIP

Prashant may be left with less corpus if he stops his SIPs now and then restart them after two years

Rs 5,000 per month ---------- for the **next 25 years**----------**Rs 94.88 lakh**

Rs 5,500 per month ------- for the **remaining 23 years**---------**Rs 73.65 lakh** (Assumed Return is 12%)

DON'T BE OVEREXCITED EITHER

While this is true that this could be the best time to invest in equity funds, one should invest only one's long-term money which is not required over the next five to seven years.

If you have some extra money to invest for the long term, invest it in parts over the next six to 12 months. Do not invest a lump sum. If you invest the entire sum now, a further fall In the market can increase your anxiety

SHOULD I CONTINUE WITH MY SIP?

PRASHANT'S GOAL AND HOW HE CAN ACHIEVE THEM

SON'S HIGHER EDUCATION	RETIREMENT
YEARS TO GOAL	
16	28
COST AS OF TODAY	
Rs 10 Lakh	-
INFLATION ADJUSTED COST @ 6%	
Rs 25.40 Lakh	Rs 5.20 Crore
HOW TO ACHIEVE THE GOAL	
Start an SIP of 3,000 in an aggressive hybrid fund. Increase contribution by 10 per cent every year. Switch to multi-cap funds once you get comfortable with equity. Start shifting to fixed income two to three years before the goal to avoid any abrupt market fall	invest 29,500 in equity-oriented funds and increase the contribution every year by 10 per cent For this invest in a good tax saving fund to the required extent (maximum 21.5 lakh in a financial year) Tax-saving funds are multi cap in nature. For the remaining amount, use aggressive hybrid funds if you are uncomfortable with volatility. Otherwise stick to multi-cap funds.

(Assumptions: Inflation @6% p.a., Return from equity oriented mutual funds 12% p.a., Return on retirement corpus after retirement 8% p.a.)

BEGINNERS SHOULD INVEST IN AGGRESSIVE HYBRIDS

Though multi-cap funds are the ideal way to get equity exposure, for investors aggressive hybrid funds are the best.
Aggressive hybrid fund invest 65-80 per cent in equity and the rest is debt. Debt exposure cushions the fall.
As one gathers experience in equity investing, one can explore pure equity funds also

DON'T IGNORE THESE

- **Maintain an emergency corpus** equivalent to at least six months of your expenses and EMIS in a combination of liquid funds and sweep in deposits. It comes extremely handy in unforeseen situations like job loss. medical emergency, etc
- **Buy a pure term plan** If you have financial dependants. The it's cover should be at least 10-12 times of your annual income.
- **Get adequate health insurance** covering you and your family, apart from the one provided by your employer

WHAT CRUDE CRASH MEANS FOR INDIA

For the first time in history, oil prices (WTI) fell to negative $40 per barrel. Brent crude has fallen 61.3% since December 31, 2019 but petrol, diesel prices (New Delhi) have seen a meagre drop of 7.4% and 8.3%, respectively.

WHY OIL PRICES CRASHED BELOW $0 IN THE US ?

Oil demand is at its weakest due to coronavirus lockdowns. There is a supply glut

- WTI futures for May 2020 were nearing settlement date
- Sellers were paying buyers $37.6 to take oil off their hands
- The problem was lack of storage capacity
- 60% of world's storage already full

IMPACT ON INDIA

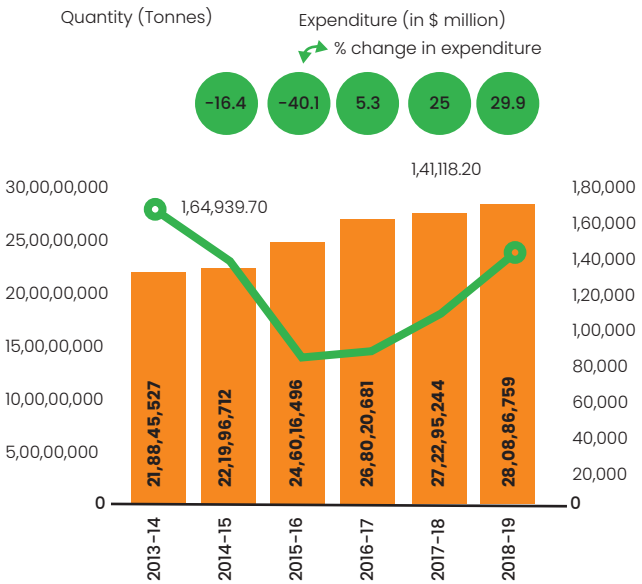
There are two kinds of crude oil - Western Texas Intermediate (WTI) and Brent. India mostly buys Brent

- Indian basket is a weighted average of Oman, Dubai, Brent Crude
- 80% of India's demand is supplied from OPEC countries
- While only 9% is from North America
- India has only 5 million tonnes of Strategic Petroleum Reserves equal to under 10 days of crude requirement

REGIONS WHERE INDIA IMPORTS CRUDE OIL FROM APRIL 2019- FEB 2020 (%)

INDIA'S OIL IMPORT BILL

India is world's 3rd largest oil consumer.
In 2018-19, it imported 84% of crude requirement

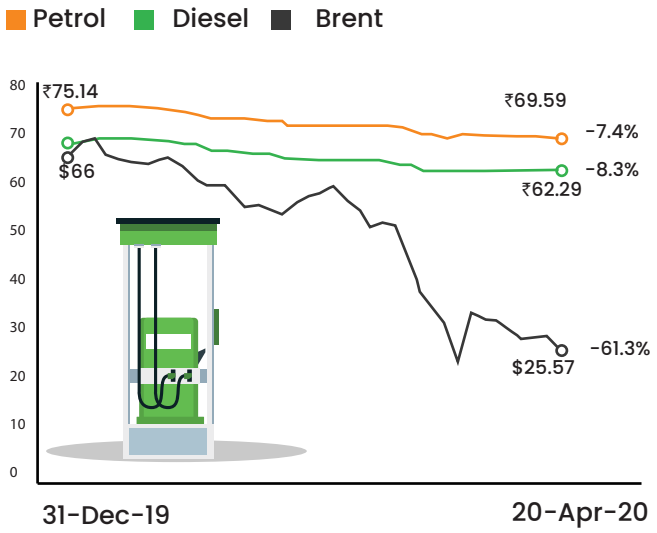


PRICE OF PETROL AND DIESEL IN NEW DELHI

However, Fuel rates haveremained untouched by the drop in croud prices.

HOWEVER, FUEL RATES HAVE REMAINED UNTOUCHED BY THE DROP IN CRUDE PRICES

PRICE OF PETROL AND DIESEL IN NEW DELHI



WHAT CRUDE CRASH MEANS FOR INDIA

SO, WHY AREN'T THE PRICES DROPPING?

- Storage capacities are miniscule and already full
- So, oil companies won't buy cheap oil even if they want to
- Indian rupee has depreciated to 76.8 per dollar making imports costlier

BUT, BIGGEST REASON IS THE 54% TAX ON FUEL, WHICH SETS OFF FALLING CRUDE PRICES

- Duties on fuel have been increased 11 times since 2014
- While a reduction has occurred only twice
- This represents a duty hike of 142% on petrol and 429% on diesel
- Excise duty was hiked ₹3 per litre in March 2020 to reap benefit of drop in crude prices
- Government has taken approval from Parliament to further raise excise duty by upto ₹8 per litre

HERE'S A BREAKUP OF PETROL, DIESEL PRICES:

Elements	Petrol	Diesel
Base price	27.96	31.49
Freight	0.32	0.29
Price charged to dealers	28.28	31.79
ADD: Excise Duty	22.98	18.83
Add: Dealer commission	3.54	2.49
Add: VAT*	14.79	9.19
Retail selling price	69.59	62.29
Tax on fuel	37.77	28.02
Tax as a % of retail price	54.3	45

HOW CAN FALLING OIL PRICES BENEFIT INDIA?

Every $10 drop in crude price results in following benefits as oil constitutes a major chunk of India's import bill.

IMPACT	
Fiscal Deficit	↓ 0.15% of GDP
Current account deficit (CAD)	↓ 0.4% of GDP (net)
Retail inflation	↓ Reduction of 0.5-0.8%

- A fall of ₹4-5 in retail fuel prices
- Import bill will fall by over $40-45 billion
- Subsidies will fall by ₹18,000 crore

WHY CAN'T INDIA REDUCE FUEL PRICES?

Tax on fuel is a major revenue source for the government amid huge spending that's needed for coronavirus relief work. Price cuts, therefore, are unlikely

Coronavirus can impact the Indian economy in following ways:

- India's 2020 GDP growth could fall to -1%
- Fiscal deficit could cross 5.2% in FY21
- An output loss of over 8% of GDP

Government has already committed spending 0.8% of GDP as stimulus.

WHAT TO DO ABOUT INSURANCE

- **DO NOT MISS PREMIUMS** Continued coverage is critical to your family's finances. Don't skip premiums or discontinue your policies. Not having insurance now could devastate your family's finances. Health insurance could cover your hospitalisation costs while life insurance will provide for your family in your untimely death.

- **EMPLOYER-PROVIDED INSURANCE ISN'T ENOUGH** Your employer-provided group health insurance coverage will last as long as you have the job. Also, it's a one-size-fits-all policy whose coverage may be small. Therefore, always own an independent policy from the retail market for yourself and your dependent family members. Make sure this policy adequately covers most of your health risks.

- **TAKE YOUR EMPLOYER-PROVIDED INSURANCE WITH YOU** While leaving your job, you can convert your company-provided group health insurance to an individual, retail policy. Check with your employer and insurance provider about it, pay the premium as per the market rate, and enjoy continued coverage without the waiting periods.

- **HAVE EXISTING INSURANCE? TOP IT UP** Improve your basic coverage by buying a super top-up health insurance. It's a cheap way to get additional, large-sized coverage with your basic coverage acting as a deductible.

- **HAVE DEPENDENTS? GET A TERM PLAN** Your financial dependents – parents, spouse, children – need protection against your untimely death. Ensure you have a term plan with a sum assured worth 10-20 times your current annual income. This will cover your family's income needs after your death.

ArihantCapital
Generating Wealth

WHAT SHOULD YOU DO IN VOLATILE MARKET CONDITIONS?

Always aim to "buy low and sell high", redeeming now means you are doing exact opposite.

Despite short termvolatility, markets have created wealth over the long term

Staying invested across market cycles helps you to reap the benefit of compounding

Spend more time in the market to create potential wealth than timing the market

Missing just a few best days in market can substantially reduce your returns potential as shown in the illustration below.

	Compounded Returns	Value of Rs. 10 lakh invested on Jan 3, 2005 (Rs.)
Missed 5 Best Days	7.83%	31,74,400
Missed 10 Best Days	5.67%	23,29,210
Missed 15 Best Days	3.78%	17,65,313
Missed 20 Best Days	2.00%	13,53,776
No Missed Days	11.14%	50,48,152

So stay invested through market ups and downs and you could benefit over the long-term

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