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NEWS YOU CAN USE: EARNING, SPENDING, SAVING

CONSUMER WATCH

PETROL PUMPS TO SELL LED BULBS

Consumers would soon be able to buy energy efficient LED bulbs, tubelights and ceiling fans at petrol pumps at much lower retail rates. These appliances would be sourced by the three state-run oil marketing companies. PTI

‘Major PSBs witness spike in gross NPAs’

Thirteen public sector banks have witnessed an increase in NPAs by a total Rs 50,000 crore between March 2016 and March 2017. The increase was spread evenly across the four quarters: Rs 20,217 crore in Q1, Rs 11,128 crore in Q2, Rs 8,318 crore in Q3 and Rs 10,642 crore in Q4, says CARE Ratings report which analysed the results of these lenders

5.12 percent was the average gross NPA ratio in March 2015 with seven banks being above the average.

These were: Andhra Bank, Bank of Maharashtra, Canara Bank, Dena Bank, Oriental Bank of Commerce, Punjab National Bank and UCO Bank. These banks continue to be above the average of 11.97 per cent in March 2017

4 Banks had gross NPA ratio of less than 10% by March 2017, with Vijaya Bank and Indian Bank being less than 8%

Q1FY17 saw the NPA ratio of above 10% for 8 of the 13 banks. These banks have not been able to scale it down to the single digit subsequently while another bank joined this list in March 2017

8 of the 13 banks did bring their NPA ratios down by March 2017, which could be an indication that these levels could come down in future. Gross NPAs had peaked in December 2016 and was just about maintained on an average basis

WHO LOWERED NPA RATIOS

Canara Bank, Indian Bank, Oriental Bank of Commerce, Punjab National Bank, Syndicate Bank, UCO Bank, Union Bank and Vijaya Bank

5 banks, including Bank of Maharashtra, Dena Bank and Andhra Bank have peaked in terms of NPAs in March 2017

ANALYSIS OF RESULTS OF 13 BANKS

Quarter and the year	Gross NPA (in %)
Q4FY15	5.12
Q1FY16	5.54
Q2FY16	5.74
Q3FY16	7.24
Q4FY16	9.91
Q1FY17	11.08
Q2FY17	11.44
Q3FY17	11.98
Q4FY17	11.97

SOURCE: CARE Ratings

MARKETS TOUCH RECORD HIGHS

Float in the gains as liquidity is here to stay

Experts are of the opinion that the recent levels breached by the stock markets isn't something that will be short-lived, and unless necessary, they shouldn't look to book profits, and thus stay invested

Illustration: Subrata Dhar

SANDEEP SINGH
NEW DELHI, MAY 18

ON WEDNESDAY, the benchmark Sensex at the BSE hit a new high of 30,658 and the market cap of all BSE listed companies breached the $2 trillion-mark momentarily for the first time ever. Although these developments are reflective of the buoyed sentiment in the market and are also reassuring to both existing mutual fund investors and those directly involved, there are many who seem undecided if they should remain invested or go for some profit booking. While experts point out that those with an investment horizon of 7-10 years should not look to make an exit, there is a view that if someone is uncomfortable and wants to book some profits in any case, they can withdraw a part of their portfolio to either invest in a fixed income product or use it to pre-pay their home loan, car loan or personal loan which is attracting a higher interest payable. Some are of the view that at a time when fixed income returns are not generating decent gains, real estate and gold not showing much promise and foreign institutional investors (FII) and domestic institutions perceiving India as a relatively calm economy with future growth potential, equities are the best place for retail investors.

"I don't see any sign of an overheated market as it is not fully-invested. I think there is no option currently better then equities for Indian retail investors. All the noise around high valuations should be viewed from the fact that the price of a stock is based on discounted value of future cash flows and if the market expects higher earnings in FY19 and FY20 then the valuation will also be higher," said CJ George, MD, Geojit Financial Services.

Performance over last 5 years

It has been a very strong rally. While the Sensex at BSE rose from 16,070 on May 17, 2012 to 30,658 on May 17, 2017, the broader Nifty at the National Stock Exchange rallied from 4,870 to 9,525 in the same period.

Illustratively, had you invested Rs 10 lakh as a lump-sum into a mutual fund tracking Nifty 50, in May 2012, then in last five years the money would have grown at a compounded annual growth rate of 14.36 per cent and your investment would have nearly doubled to Rs 19.55 lakh. On the other hand, if you have started a Rs 10,000 monthly SIP in the same scheme five years ago, your overall investment corpus of Rs 6,00,000 would have grown at a the rate of 11.9 per cent and would have aggregated to Rs 8.14 lakh.

Experts said that markets are not overheated and the liquidity is likely to continue as both FIIs and domestic investors have strong view on Indian economy

Many diversified equity schemes along with small and mid cap schemes have generated far superior returns in the same period as they outperformed the benchmark indices. In fact, the average return (CAGR) for large cap equity schemes stood at 16.57 per cent over the last five years, and that for mid and large cap oriented funds stood at 25.4 per cent and 30.41 per cent respectively.

In both the cases, returns are much higher than any other asset class has generated. With such a strong bull run and markets trading at higher valuations, some relatively conservative investors may get the feeling that the returns have surpassed their expectations and their target, and therefore, may want to book some profits.

Should you look to exit and where to invest?

George said that markets are not overheated and the current liquidity is likely to continue as both FII and domestic investors have strong view on Indian economy. "FIIs view India as a relatively calm economy with political stability and they have high confidence on future earnings potential. Also, while retail inflows continue, some of the large mutual funds are currently holding high cash at around 15 per cent to capitalise on the opportunity that comes by way of a correction in the market," said George.

As the optimism continues on potential for strong returns in the medium to long term, there is a consensus that investors should consider to book profits only if their financial goals (for which they started their investment) fall over the next two to three years.

"As the market PE (price of earnings ratio) rises, investors should elongate their investment horizon. However, if some investors feel that they would need the invested amount over the next 2-3 years, they can go for redemptions and route their investments into fixed income instruments," said Vishal Dhawan, CFP and founder of Plan Ahead Wealth Advisors.

While there may be some who have a 10-year investment horizon but still want to book some profit from their existing stocks on account of discomfort from current rally, experts suggest they may go for a part redemption and ideally look to repay some of their loans. "Ideally, such players too should remain invested but if the individual has decided to do so, he can redeem a part of the investment and use it to repay home loan/car loan or personal loan where he/she is paying a much higher interest rate," said Dhawan.

Experts opine that pre-payment of a home loan at 9 per cent or a car loan and personal loan at 10 per cent or 12 per cent respectively, is better than investing in fixed deposits as the post-tax return for an individual falling in the highest tax bracket would come to around 5 per cent.

Another option is to evaluate the portfolio of stocks and mutual fund schemes and shift from one theme to another. "Instead of looking at valuation of the markets, investors should look to shift into themes that show better opportunity. Mutual fund investors should move from small cap schemes to large cap or diversified schemes for fresh allocations
whereas stock investors can look both large and small cap companies that are into sectors with strong potential for growth," said George.