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Viewpoint |NRIs should consider Indian equities to beat global slowdown

Mutual funds, ETFs, portfolio management services and alternative investments are avenues suitable for long-term investors

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A stronger-than-expected election verdict in favour of the incumbent government, coupled with a sharp fall in oil prices has had many NRIs(non-resident Indians) wondering how they could participate in the opportunity provided by Modi 2.0.

A global growth slowdown, triggered by the US-China trade wars has also made investors look at India as a possible safe haven considering its lower exports and large domestic economy.

There are differing opinions on whether this government will focus on continuing what they had started during their earlier term, or go in for much bolder reforms considering the sharp slowdown in the Indian economy over the last few months. Whilst only time will tell how this government and the new finance minister deal with this slowdown, both through the Union Budget slated for July, and through policy actions outside the budget, it is critical that NRIs build their exposure to Indian equities in a well thought out manner.

There are multiple factors that NRIs need to keep in mind when they are building their India equity exposure

NRIs need to look at their overall wealth across geographies, so that their portfolios are a good blend of global and India assets. For example, if investors have very significant exposure to emerging markets through their global portfolios already, they may want to make a smaller allocation to Indian equities directly.

Stay invested for longer

Whilst past performance is not necessarily an indicator of future returns, history can be a great teacher if one looks at the data carefully. Volatility in equity markets in India has tended to be higher than a large number of global markets, and thus the investment journey for many NRI investors who are investing in India can be uncomfortable. It is therefore very important to get the investment time horizon right, and allocate monies to Indian equities that you can put away for at least seven to ten years to deal with the volatility.

Indian markets can move sharply in a very short span of time, making investors feel left out or panicky and create a very strong desire to get in or get out of equities before it is too late. Investors need to remember that the strategy to buy into Indian equities has to be well thought through, so that the two biggest enemies for investors, greed and fear, can be dealt with well. A regular investing strategy independent of trying to time the market, can work very well to address this challenge and allow an investor to stay calm irrespective of market direction. For example, mutual funds offer Systematic Investment Plans (SIPs) or Systematic Transfer Plans (STPs) that help investors stay invested irrespective of market movements.

Choose the right investment vehicle

There are multiple options that NRIs can consider when they build their India-centric equity portfolios. These include mutual funds and ETFs in India, international mutual funds that invest in India, portfolio management services (PMS) or Alternative Investment Funds (AIF) that take equity exposure, or NRIs could also buy equities directly in their own name. There is no one vehicle that works for all investors. For example, whilst domestic Indian mutual funds can work very well for NRIs in most parts of the world, US-based NRIs may find it less efficient to hold domestic Indian mutual funds due to adverse tax treatment in the US. Direct equity purchases may work for investors who can do their own detailed research and track corporate earnings closely, in spite of being in a different time zone and having relatively limited sources of primary research. NRIs may also choose to use multiple vehicles simultaneously as well, rather than using only a single investment avenue.

Understand tax treatment

Gains from equities in India are taxed as short term at 15 per cent if they are held for less than one year, and at 10 per cent if they are held for more than one year. However, the capital gains could be taxed differently in the NRIs' country of residence/citizenship, which would also depend on the tax treaty/arrangement between India and that country. It is therefore important to understand tax implications as well so that the equity investment journey is made easier.

The author is a certified financial planner and founder of Plan Ahead Wealth Advisors, a SEBI registered investment advisory firm.

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