



CFA Society  
India

# IAIP NEWSLETTER



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2017



## Quotable Quotes

Your life does not get better by chance,  
It gets better by change.

**Jim ROHN**

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## From the IAIP Board

**Sonia Gandhi, CFA**  
Board of Director, IAIP



Dear Members,

In 2005, a dedicated bunch of volunteers took the initiative to form Indian Association of Investment Professionals - CFA Society India, and it has been a remarkable journey to date. Our member base is growing rapidly, and is truly representative of all segments of the investment profession. With such rapid growth come fresh challenges. The board is committed to ensuring that our society is well equipped to handle the same. Several measures have been undertaken to strengthen governance practices and many more are in the pipeline. We now have a vastly improved accounting and management information system. We constantly endeavor to learn from and implement the best practices at the Institute and other societies. We are in the process of engaging reputed consultants for a comprehensive legal and compliance review. We are on track for developing a best-in-class governance framework.

The growth in membership is coming from across regions and hence empowering the chapters has been a key focus area. Starting with transparency on regional budgets, which gives each region visibility and tremendous flexibility to utilize their allocation in a manner that delivers maximum member value. The volunteers in each region work hard to organize high-quality CE events, workshops and networking opportunities for members. Our new board composition is also a reflection of the increasing importance of all regions. A warm welcome to the two new directors - Sampath Reddy and Jitendra Chawla on the board of CFA Society India. A big shout-out to our two retiring directors, Namit Arora and Rohit Rebello, for their immense contribution over the years. Both Namit and Rohit have been involved as volunteers from the formative days of the society and they should be proud of the legacy they have helped build.

The society continues to fire on all cylinders and then some. The CFA Society India is increasingly being recognized as an extremely powerful platform helping us attract influential and marquee speakers. Last month we hosted the hugely successful Financial Talent Summit, bringing together professionals from verticals across the Investment profession under one roof, to provide guidance and career advancement inputs to our members and candidates. The Value Investor Summit in Delhi was another resounding success. Under the scholarship awards program, last year we granted close to 450 scholarships. This year too our dedicated team comprising of volunteers from several regions, is hard at work, to vet the applications and award scholarships to the deserving candidates.

## From the IAIP Board

As we move into the Oct-Dec quarter, we eagerly look forward to the most anticipated event of the entire year's calendar - Charter Felicitation ceremonies. Welcoming the new charter holders into our community is an immense source of joy and pride. New members and volunteers bring fresh perspectives and interesting insights to our endeavors. The infectious enthusiasm, dedication, and commitment of our ever-expanding volunteer base across chapters ensure that "together we keep growing stronger."

## Cover Story

### Impact Investing: Fuel for growth at grassroots level

Manish Jain, CFA  
Rajni Dhameja, CFA  
Shivani Chopra, CFA



India is one of the fastest growing economies in the world. But the poverty levels are still considerably high and concerns remain around income inequality resulting from the uneven growth among different sections of the society. India ranks 131 out of 188 countries in the Human Development Index (HDI). Access to basic amenities like water, sanitation, energy, financial services, etc. is lacking especially in rural areas. Government sponsored programs have not yielded satisfactory results and there is a definite need for private capital to support the underprivileged sector. Impact investing has the potential to bridge these gaps and provide a more favourable and sustainable outcome.

Impact investing is a type of investment which is on the cusp of financial markets and social impact. It is an investment which can be done across a spectrum of asset classes and is catching up with the much needed attention recently. Impact investing as the name suggests is the investment which is done to create the social impact in the lives of people at large. A more formal definition of impact investing as defined by Global Impact Investing Network (GIIN) "Impact investments are investments made into companies, organizations, and funds with the intention to generate social and environmental impact alongside a financial return". It has the dual objective of creating social impact and earning a financial return which is what differentiates it from philanthropy. Impact Investing makes a case for business opportunity thereby an investing opportunity due to the nature of markets it targets to cater. These are the markets which deal with the necessities for the underprivileged sector for which demand is already in place. An innovative business model is required to tap the already existing demand. For entrepreneurs, it provides them with the opportunity to do the business which has a larger meaning along with the profit generation.

#### The Impact Investment Industry in India-

The Impact Investment Industry in India offers market based solutions to these developmental issues. It opens up the channels of capital for the sectors which are unexplored by mainstream investing and reach to the areas where the government cannot. Impact investors de-risk by investing early in the innovative projects (relatively untested territories) which aim to uplift the quality of life for people at large. Especially for emerging markets too many projects are competing for the limited resources. Impact investing clearly adds value to them.



# Cover Story

## Impact Investing provides a constant source of Innovation

Clean drinking water is a basic necessity with widespread demand. Women in villages spend hours fetching water for their families. Drinking contaminated water causes illness and further economic stress for poor people. Mainstream investors have shied away from investing in drinking water companies due to apprehension regarding the ability of masses to pay for clean water and enable satisfactory returns. Hence innovative business models are required to strike the right balance between profitability and affordability.

Mumbai based Aavishkaar Impact Fund invested in a social enterprise named Waterlife offering unique and creative solutions to deliver highly affordable clean water to even the most remote, low income, rural and urban communities. It uses best available green technology and installs contamination removal units, community water systems, mobile water units, etc.

To meet the rising demand from our domestic enterprise market, an ecosystem has been building in the industry by a diverse set of stakeholders. There are around 50 active impact investment funds in India raising capital from Development Finance Institutions (DFIs), High-Net-Worth Individuals (HNIs), family offices and commercial banks and foundations. Conventional PE/VC firms are also participating along with impact investors and more investments are coming from these club deals. The collaboration is helping the impact enterprises' financing across their life cycle. It is endowing entrepreneurs with access to a more flexible and long term capital needed to scale their businesses.

Impact Investing Landscape in India				
Stakeholders →	1. Impact Social Enterprises	2. Impact Investors		
		Impact Funds	DFIs	Foundations/HNWIs/Others
Examples →	Husk Power Systems	Aavishkaar	SIDBI	Omidyar Network
	Rangсутra	Khosla Impact	NABARD	Michael and Susan
	dLight	LGTVP	ADB	Dell Foundation
	Waterlife	Unitus Equity	IFC	
	Vaatsalya Healthcare	Lok Capital	FMO	

Impact investments are made across a diverse basket of sectors. Clean energy and financial inclusion (microfinance) dominate as more than 60% of deals done in 2016 came from these sectors. Other areas such as education, healthcare and agriculture are also growing in the portfolio. Impact investors are building sector expertise to support enterprises. E.g. An organisation was found to provide coaching to founders of microfinance institutions.

Other developments have also been made to promote the industry like setting up of India Inclusive Innovation Fund (IIIF) and formation of Indian Impact Investors Council (IIC). IIIF is a joint effort between National Innovation Council and the Ministry of Micro, Small and Medium Enterprises (MSME). It was approved by Union cabinet in 2014 with an initial corpus of Rs. 500 cores. IIC, on the other hand, is a self-regulatory organisation as a result of nine entities coming together in May 2013. It addresses the growing sentiment among stakeholders in the Impact Investing community for a member-based industry body. IIC has over 30+ Impact Investors as members currently. Recently in Sep'17, it organised events in Mumbai and Delhi to discuss the progress made till date and measures to speed up the same.

## Cover Story

### Recent trends in India-

As per a recent report published by McKinsey, the industry is very vibrant in India. The cumulative investments from 2010-16 touched US\$5.1B, with US\$1.1B coming from 2015 alone. The volume of deals has remained stable at around 60 to 80 a year, however, average deal sizes in value terms have risen. The impact capital deployment CAGR has been 14%.

### Myths about Impact Investing-

Impact investing has popular myths around it. The report by McKinsey mentions that lower return, high patient capital and smaller impact are some of the popular myths. However, analysis conducted by them for a period of more than 5 years suggest that the deals within this space have witnessed profitable exits creating larger impact. The holding period for these deals depends upon the robustness of the business models. Really good business models have witnessed the lower holding period. Another myth which revolves around impact investing is that only impact investors invest for the impact. However, the report suggests that conventional PEs and VCs have also started investing in this space. PE/VC and impact investors bring a complementary skill set together depending upon the stage of business to create successful investment.

### The way forward-

To unleash the potential of impact investing, collective efforts are required in the areas of bringing transparency in measuring the impact, benchmarking returns, expanding the funding base by leveraging on the CSR function of corporate sector and creating awareness among the various stakeholders who can bring about the significant impact together. Mr. Aditya Jadhav, CFA - Principal (Investments) at SIDBI Venture Capital Limited expressed his views on how social investing could be the lens for all investing going forward. Taking Japan as a prime example where there are 20,000 companies that are more than 100 years old, he strongly encourages creation of enterprises to have a long term vision and further adds, "India needs a generation of entrepreneurs who believe that their company exists not to satisfy their personal greed but to serve needs of the community by being embedded in our community, and creating deep, lasting commitments to the people, places, and values that make it special. Once we have entrepreneurs who want to build long living businesses instead of looking for a quick exit, then even generic VC funds will start investing in such enterprises followed by a paradigm shift towards impact investing."

The industry needs to overcome several challenges to reach its desired goal. Mr. Mukesh Sharma, CFA Co-founder and Managing Director of Menterra Venture Advisors Private Limited shares the major challenges for the growth of impact investing in India. He feels that, "A large number of social enterprises are started by founders belonging to relatively better economic strata. Therefore, the core team does not always have deep understanding of the BoP segment requiring deep immersion. The absence of immersion process results in products and businesses built on poor customer insights. Therefore, we have a shortage of cutting edge innovation and ideas that truly reach the underserved and deeply impact the base of the pyramid. Also, not many funds outside of micro-finance have completed a full cycle. Therefore, outside of micro-finance, we do not have success stories as yet, and few that are there have not been communicated well, restricting the flow of capital to other sectors. Allocation of funds has been skewed in favour of a couple of sectors and towards large size funds."



## Cover Story

### Conclusion-

India being an emerging economy with large unmet social needs has significant potential to grow investments in the impact investing space. In the last 15 years, since the start of impact investing, the industry has tried to narrow the dichotomy between "Impact first" and "Finance first". It encourages investors to shift away from traditional Risk-Return approach to Risk-Return-Impact approach. The projects that generate returns to the society can lower the overall risk and enable superior returns to the capital invested. The infusion of capital has sparked tremendous growth in impact businesses, and a new landscape has emerged emphasizing scale and sustainability to drive both social and financial returns. This can bring about the win-win situation for investors, entrepreneurs and society at large by creating impact at grassroots level.

### Sources-

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2. 2016 GIIN Annual Impact Investor Survey
3. The Landscape for Impact Investing in South Asia. A report by GIIN, Dalberg and UK Aid for The Impact Programme
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(Views expressed herein are personal views of authors and do not constitute that of employer organization.)

## Cover Story

### Quest for the Goldilocks Economy: Central Banking and Monetary Policy from the Indian Perspective

Ishwar Chidambaram, CFA, CIPM

Vivek Rathi, CFA

Jyoti Soni, CFA



#### Introduction

In this article, we examine the impact of various local and global factors on India's central bank, the Reserve Bank of India (RBI) in its quest for a Goldilocks economy. The Goldilocks zone, in general, refers to a region where the conditions are "just right" for life to exist peacefully. In economics, the Goldilocks economy is one that is not too hot or cold, in other words, sustains moderate economic growth, and that has low inflation, which allows a market-friendly monetary policy. This will involve achieving some or all of the following: moderate levels of inclusive growth for all, an economy characterized by low inflation and low joblessness, moderate wage growth rate, creation of jobs, and revival in private sector capex.

#### Emerging Markets: Already Goldilocks?

Despite geopolitical risks and natural disasters, the global stock markets have steadily rallied, making new highs every day. In fact, in the latest poll of global fund managers by a leading investment bank reveals that nearly half now expect above-trend growth and below-trend inflation, which is dubbed the "Goldilocks Economy". Emerging markets have rallied from the inflection point in February 2016, when fears of China's "hard landing" failed to materialize. In fact, fund managers are now stampeding like bulls into this asset class.

#### Indian Context: History of RBI

The RBI's mandate stems from the RBI Act of 1934, which stipulates the functions for which the RBI was conceived, namely "to regulate the issue of Bank notes and the keeping of reserves with a view to securing monetary stability in India and generally to operate the currency and credit system of the country to its advantage". This would seem like a proverbial Herculean task, given the humongous scale and scope of the Indian economy, and the cacophony of myriad competing voices all clamoring for their piece of the economic pie. Indeed, the RBI Act appears to imply that the *raison d'être* of the RBI is no less than to ensure monetary stability, and sustain confidence in the country's currency as a store of wealth and purchasing power. Besides the aforementioned primary mandate, the RBI also has the additional objectives of striving for comprehensive growth and development for all, as well as ensuring macroeconomic stability.

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### **Evolution of Policy Making: The Monetary Policy Committee (MPC)**

For much of the RBI's history, key decisions pertaining to interest rates were taken by the Governor alone. The latter was guided on the stance of monetary policy by a Technical Advisory Committee (TAC); however, its role was only consultative in nature. This system led to uncertainty as the RBI Governor was appointed and could be dismissed at the whims and fancies of the Government of the day. This uncertainty led to tensions between the Government and RBI, which were exacerbated during periods of stagflation. To resolve this situation, the Urjit Patel Committee proposed the establishment of a committee to decide on Monetary Policy. In its present form, the committee comprises 6 members- 3 RBI officials and 3 external members nominated by the Government. The current mandate of the MPC is to maintain 4% annual inflation until FY 2020, with a tolerance band of +/- 2%.

### **Factors Influencing RBI Monetary Policy**

#### **Factor 1: GDP Growth Rate**

This is one of the crucial factors influencing the RBI's reading of the tea leaves for the Indian economy. A lower (higher) than expected growth rate is expected to increase pressure on the MPC to cut (raise) the benchmark rates. For instance, GDP growth recently slowed to its lowest pace in 13 quarters. However, the MPC opted to hold rates steady citing upside risks to inflation. Despite the hype over GDP numbers, this statistic is far from adequate to judge the nation's macroeconomic and social conditions.

#### **Factor 2: Inflation**

As outlined earlier, the primary function of RBI is maintaining a low and stable rate of inflation. This is the necessary condition to ensure optimal growth in the economy. However, what matters is not only the magnitude of inflation but also its trajectory of evolution. Emerging markets like India are more susceptible to macroeconomic and geopolitical vicissitudes, any of which can trigger rampant inflation. For instance, an episode of runaway hyperinflation like that witnessed in Weimar Germany would have unfathomable consequences for modern developing nations like ours.

#### **Factor 3: US Fed Policy**

Over the last couple of decades, the increase in cross border capital flows has smoothed the access to low cost capital for the emerging economies. Though, the technology innovation helped the process, but the decreasing barrier to capital flows have made policy decisions of influential central bank like Federal Reserve, a global event. Generally, lower funds rates make an investment in the United States less attractive and conversely, the higher rates would attract capital. These lower rates over last decade had a spillover effect on emerging economies, like India, as it imported inflation in form of cheap capital and the higher commodity prices.

The fed funds rate also has an impact on the value of Currency. Broadly, the higher rate would lead to increase in the value of dollar as the demand for the dollar investment would increase, likewise, the lower fund rates would lead to decrease in value of the dollar.

## Cover Story

If we look back, the onset of Global Financial crises in 2008 and the resultant collapse of big financial institutions led to lowering of fed funds rate by US Federal Reserve. The rates were decreased to the nadir by December 2008. This was followed by three rounds of Quantitative Easing, wherein the Fed pumped in trillions of dollars into the economy. Because of this, there was an abundance of liquidity in the global markets and credit was available at negligible cost, and that easily found its way to emerging economies like India, China, etc.- the reason being the higher return potential offered by these emerging markets compared to the developed countries. Initially, this abundant liquidity, led to a radical increase in prices of important commodities like oil and gold, with gold hitting its life time highs. Although the Fed started raising rates gradually from Dec 2015, but the pace of hike has been far slower than expected.

### **Factor 4: Exchange Rates**

The Fed's ultra-accommodative policy had an adverse impact on India's trade balances as it is a net importer of commodities. It not only impacted India's external balances but also significantly contributed to Inflation. The accommodative policy was expected to weaken the dollar against the rupee, but India's huge demand for Oil and Gold lead to sharp demand for dollars which in turn weakened the rupee. This complete process developed into a vicious cycle, where, Fed reduces rates to tackle economy slowdown, which compressed capital cost significantly, spurring commodity prices, and in turn leading to asset bubbles across emerging markets and that led to higher inflation and finally prompting local Central bank (RBI here) to increase rates.

### **Forward Outlook**

Since Dec 2015, Fed has increased rates by almost 100 basis points, 25bps in four steps. Though, India has managed to pass through this period with no significant economic impact, as the oil prices was relatively stable and India macro's are far better compared to a couple of years ago. But the next big challenge for the RBI would be unwinding of the Fed's humongous balance sheet, which stands at \$ 4.5 Trillion today. There are no signs of it yet, but going forward, RBI's policy decision would have to take cognizance of such policy measures as it may squeeze considerable liquidity from world markets. However, for India, the robust forex reserves of almost \$400 billion dollars would come in handy during an adverse market reaction, this would provide a cushion in case of any eventuality.

### **Summary**

To conclude, there are no simple answers for monetary measures by the RBI; the policy action can't just focus on Fed policies or exchange rates or GDP in isolation. As a matter of fact, in addition to the above, RBI has to consider a number of other factors like Foreign Exchange Reserves, Current account deficit, Fiscal Deficit, GDP, Trade balance, Investment inflows, etc. before deciding on any policy action.

### **Conclusion**

It is the solemn duty of the central bank to conduct rigorous scenario and sensitivity analyses, and to account for every eventuality, no matter how remote, and take mitigating steps. This is all the more critical in developing countries, which lack the resilience and social security safety nets of the industrialized economies. Guided by an able MPC and backed by the full faith of the Government and the people, the RBI can hit all the right notes and turn India into a Goldilocks economy. This is an idea definitely worth striving for.

(Views expressed herein are personal views of authors and do not constitute that of employer organization.)

## In Conversation with...

Jitendra Chawla, CFA



Jitendra Chawla is Vice President at Deutsche Bank Private Wealth Management. Previously, he has worked in organisations like Kotak Bank Wealth Management, Citi Wealth Advisors, ABN AMRO Bank and Standard Chartered Bank. Jitendra is a CFA Charterholder since 2009 and has been an active volunteer in Delhi Chapter of IAIP. He is currently Director, CFA Society India and co-chair of the PCE Committee.

### **1) How do you view your industry with regards to scope, growth and job prospects? How can CFA charter holders take advantage of it?**

Wealth management industry is growing by leaps and bounds in India. According to a survey done by Asian Private Banker, the assets managed by Indian wealth managers grew by a whopping 33% yoy to US\$102 billion by end of 2016. The trend has only accelerated in 2017 with Indian investors shunning gold and real estate in favour of financial investments. Needless to say, wealth management offers a huge career and business opportunity to finance professionals. And this is just the beginning.

In wealth management industry, those who understand and can analyse various asset classes and investment instruments will have an edge over others. This gives CFA charterholders a natural advantage, not just for research roles, but also for front and mid office roles. Having a CFA charter gives one an edge as both employers and clients have now started recognising the difference it makes.

### **2) How would you rate the CFA course with respect to content and structure including the pros and cons? Also, include aspects which give CFA course an edge over other courses.**

CFA designation is considered the gold standard among financial professionals worldwide. The CFA Program is a globally recognized which is a big advantage in an increasingly competitive job market.

The extensive curriculum of CFA Program is deeper and more focused course of study than any other program for Investment professionals. The curriculum is grounded in practice and it is designed and updated by taking feedback of investment professionals around the world through a regular and extensive survey.

The local societies give charterholder members opportunities to upgrade their knowledge regularly by organising continuing education programs and to network with fellow professionals.

I am not aware of any other program for investment professionals, which comes even close.

## In Conversation with...

### **3) What guidance you would give to CFA aspirants?**

The advice I would give CFA aspirants is to pursue the charter while also getting relevant on-the-job experience as it will help them better appreciate what they learn through the program. Also, while deciding on their career moves – particularly early on in their careers – they should make choices which provide better learning opportunities, even though they may earn a little less. This will help them immensely in the long run.



## In Conversation with...

Uday Dhoot, CFA, CIPM



Uday Dhoot has 13+ years of experience in the field of Wealth Management & Investment Advisory. He is the Founder of Oye Paisa, a fin-tech startup and a SEBI Registered Investment Advisor that is building tools to help youngsters manage money better.

A rank holder from Bangalore University during his BBM days and India's first to get the CIPM certificate from the CFA Institute, Uday is also a Certified Financial Planner and holds CFA Charter.

### **1) How do you view your industry with regards to scope, growth and job prospects? How can CFA charter holders take advantage of it?**

Wealth Management & Personal Financial Advisory, as per me is going to be one of the biggest opportunities for CFA charter holders in the coming decades in India. As investors move away from their uncle and aunty's advising them on their personal finance to seeking professional help, or moving away from physical assets to financial assets, there will be a huge demand for professional advisors to guide individuals and families on managing their money. CFA charter holders with their learning of financial markets & emphasis on ethics will fit into this requirement perfectly.

### **2) How did CFA help in enhancing your career objectives?**

When I enrolled for CFA I was not sure as to how exactly it would help me. In the process of 4-5 years, it took me to clear all the levels I learned a great deal about finance, ethics, wealth management and financial markets.

The most important bit about the CFA is the practicality of the whole course material. I remember I used to keep a separate list of ideas to implement at work from my learnings of the course material.

Overall as a finance professional, the program has provided me a lot of confidence in handling such matters of finance for my clients and firm.

### **3) How would you rate the CFA course with respect to content and structure including the pros and cons? Also, include aspects which give CFA course an edge over other courses.**

The only courses apart from my graduation that I have done have been professional courses, therefore I have little to compare the CFA program with other similar programs.

## In Conversation with...

Few clear pros of the CFA program are as below:

- Fantastic content and learning that gives you a great global overview of finance
- A very practically oriented program, as you would expect a professional program to be
- You can do the program while being fully employed, enhancing both your learning and work.

I really cannot think of cons as such, I am strong believer that professional programs like CFA should be done by folks who are already in the profession or else you do not enjoy and relish the depth and the learning that the content can offer you.

Few other things that give CFA an edge over other courses for me have been the following:

- Global perspective
- Global recognition
- Global Networking

In a world where we are today, you can learn a great deal when you have the above available to you easily. CFA charter gives you that passport.

#### **4) What guidance you would give to CFA aspirants?**

Take your time to finish the program. Relish the content and see how you can relate it to your work. Don't be in a hurry to just clear the exams, rather enjoy the content for the knowledge that it can provide you and value it can add to you, your career, your firm and your clients.

## Insights from IAIP Events

### In conversation with – Kenneth Andrade...

Contributed by: Shравan Kumar Sreenivasula, CFA, IAIP and Birla Sun Life AMC



Kenneth Andrade is known by the moniker “Midcap Moghul”. It is a very apt description of a fund manager who likes to be benchmark agnostic and aims to pick stocks that are wealth creators for his investors. He currently runs his own PMS by the name of Old Bridge Capital Management with a corpus of USD 150 mn. In a conversation with the very inquisitive Sonia Gandhi on a Friday evening in front of IAIP members, Kenneth covered from topics ranging from his role models, his market view, lucrative market opportunity he is sighting and his philosophy of investing. He always makes investing look simple and yet he picks up differentiated bets which run up to be multi-baggers.

Here are some of the key take-aways for me and hope it will be helpful for others who may have missed it.

- On his view of the markets, he mentioned that the P/E ratio across the global markets is high. Investors have been looking for “E”. It is like looking for a corner in a room that has no corner. The reason why the P/E is high is due to lower bond yields and liquidity chasing assets that have at least some yield. Infact, more liquidity is chasing equities as interest rates are increased by central banks leading to rise in bond yields (and hence capital losses).

## Insights from IAIP Events

- On what could cause the most waited corrected, he warned that it is always an unknown and unexpected event which could bring down the valuations across the world. Today, it is difficult to point out which one
- He cautioned that one has to take note that this decade has by far been the calmest in past many decades. There was the Global financial crisis in the previous decade, dot com crisis & Asian financial crisis in the previous one, junk bond crisis in the previous one and so on and so forth

Read more: <https://iaip.wordpress.com/2017/07/31/in-conversation-with-kenneth-andrade/>

## Insights from IAIP Events

### Debt-funding dreams/nightmares and the SME sector

Contributed by: Meera Siva, CFA

Friday, August 4, 2017, Chennai



Credit growth fuels economic growth but lending is a sober business where the upside is capped and risks are uncertain. IAS Balamurugan, Managing Partner, Anicut Capital LLP, a SME-focused debt fund, introspectively looked at the issues in the credit business in India, based on his over two decades of banking experience at ICICI, UBS and Citibank. Bala is also the Co-founder of Metis Family Office Services, in Chennai and handles HNI investments.

#### **Skip nostalgia**

A banker's problems in lending – to individuals and small companies – has changed for the better over the last two decades. Lending was an occupational hazard in the past as there was no concept of Know Your Customer. There were cases where the borrower will skip town and these skip cases made lending a nightmare for the banker in the 1990s.

After the fall of the twin towers, the risks in lending – loss of capital – was considered manageable compared with the risk of letting a wrong person open an account – terrorism or money laundering. With strict KYC and now eKYC in place, people are more traceable and life is that much simpler for lenders.

## Insights from IAIP Events

Online lenders such as LendingKart (in which Anicut Capital has invested) complete the loan process online, thanks to online data and identity being established with Aadhar etc. There is a lot of efficiency and credit is available faster and at lower operational cost. But, it does not mean lending rates will go down. There may be a tendency to take more risks in lending to reach scale and this may push up defaults, and hence rates may go end up higher.

### **Hidden risks**

Often credit risks seem obvious in hindsight but at the time of lending, the idea looks too safe and fail-proof. For example, SMEs that supply to foreign clients – Nike, Tesco – were considered good bets in lending as there was a pipeline of orders from these safe customers. But after 9/11, all orders were cancelled and suppliers were left without a recourse and the loans became non performing assets.

It would have been wise to diversify across sectors and geography but an event of that scale was not thought of in any model or analysis. And the reality is that rare events occur regularly. The take-away for lenders is that events are unavoidable and must be dealt with calmly. Bala takes it a step further and says that Anicut Capital bets on events – buyout of PE holding by promoter, equity fund raise, asset sale – to lend to smaller companies.

Read more: <https://iaip.wordpress.com/2017/08/27/debt-funding-dreamsnightmares-and-the-sme-sector/>



## Insights from IAIP Events

### How to Smell a Rat? An Introduction to Financial Shenanigans

Contributed by: Ashok M, CFA



Saurabh Mukherjea, CFA enthralled the audience with his presentation on Forensic Accounting, at the IAIP event in Bangalore, held on 03rd August, 2017.

How many of us knew that misreporting or fictitious accounting can be found even among companies that are part of the Nifty Index? This put the audience on notice! Among BSE 500 index constituents he put the comparable number at 150.

Ambit has studied and catalogued companies according to its accounting quality. Investment return chases accounting quality. Their study shows that over a 5 year period, the top decile companies in terms of accounting quality outperform the bottom decile companies by 10% on an average.

Good quality stocks outperform bad quality stocks in the long run. Barring exceptional periods, good quality stocks perform well even in the short term. It is a myth that traders make money in the short term at the expense of long term investors. The opposite is true.

The best analogy that most of us understand well is Cricket. Saurabh brought out a little known trivia relating to the scores of the 'Wall' Rahul Dravid, and the 'Legend' Virendra Sehwag. In the longer version of the game, Dravid averages 55, while his counterpart's is at 49. In the shortest form the game as well, the 'Wall' outperforms the 'Legend'! While Saurabh didn't give out detailed statistics, I did go back and check. To my pleasant surprise both in ODIs and T20s the averages are in favour of the more consistent Rahul Dravid. This is one analogy that many wouldn't forget for a long time.

## Insights from IAIP Events

However, markets can be unfair to serious investors. Investor's who sift through tons of annual reports and market research can sometimes see their efforts go unrewarded for particular durations in the market. The last 12 months in one such time period. The bottom decile, low quality, 'rubbish' stocks have run up quite a bit.

How does one detect fraudulent accounting? Few of the drivers for misreporting are

- Hiding the damage caused by pursuing unviable mergers and acquisitions
- Exaggerating Revenues
- Theft by Promoters
- Extortion by powerful third parties.

Read more: <https://iaip.wordpress.com/2017/08/27/how-to-smell-a-rat-an-introduction-to-financial-shenanigans/>

## Insights from IAIP Events

### Implication of GST on the broader economy and Stock Markets: Stakeholders' perspective

Contributed by: Mandar Chapekar, CFA



CFA Society, Pune Chapter hosted a session on “Implication of GST on the broader economy and Stock Markets: stakeholders' perspective” by Mr. Kuntal Shah on 18th August 2017.

Kuntal is one of the founding partners of SageOne and has an opportunistic inclination towards the value-oriented and risk-controlled approach to investments.

The Crux of the Topic was implications of reforms on government finance, corporate profitability, long-term trends, factors to watch out for, impact on broader economy and possibilities ahead.

In his presentation, Kuntal stressed on the computerized economy, digitization that has taken place which will act like scanning machine of every transaction of each individual. It would be possible to keep a trail of all economic activities, and there would be very few loopholes to evade the computerized system. It would improve tax collection for the Government, curb the parallel economy transactions and will have a huge overall positive impact on the broader economy and stock market.

## Insights from IAIP Events

Kuntal mentioned following few points about the impact of the introduction of GST :

- Margins may not improve as dramatically as widely thought that they would. Most of gains/losses in slab changes would be passed on under anti-profiteering clause, market share expansion preference, etc
- Transition is chaotic, however, the launch has been decently managed so far
- Wise to ignore the first six months of GST – the most important detail to follow will be the Indirect tax numbers, and direct taxes should shoot up as same entities violates both
- SME business has been forced to enroll because the customers and vendors have started demanding it
- It has led to a tremendous working capital demand in the system at the MSME level
- GST – its misunderstood that tax efficiency is the biggest impact of GST, however, it will be the digitization of records which will be far more valuable
- Four benefits of GST will be Digitization , Enforcement, Analytics and Higher tax base

Read More: <https://iaip.wordpress.com/2017/10/02/implication-of-gst-on-the-broader-economy-and-stock-markets-stakeholders-perspective/>

## Insights from IAIP Events

### **A Primer on Indian Private Equity: A Practitioner's Perspective**

**Contributed by: Varsha Dhamasia**

Historically asset allocation was focused on only traditional asset classes, i.e., equities and fixed income instruments but over the last few decades, investors have increasingly inclined towards investment in alternative asset classes owing to their wonderfully high and uncorrelated returns. Backed by significant reserves of primarily foreign capital, the private equity industry is fast catching up an alternative source of financing for the up and coming businesses in India. Even when the primary markets weren't doing well during 2010 – 2014, almost \$40 to \$50 billion were invested in the Indian private equity markets. India had 253 active private equity funds in 2016.

The CFA Society India – IAIP organized a session on “A Primer on Indian Private Equity: A Practitioner's Perspective” presented by Mr. Kazi Zaman, CFA and Mr. Abhishek Loonker, CFA in Bangalore on September 9, 2017. An all engrossing and engaging session where everything was discussed from the concept to the real world matters in private investing straight from the seasoned private equity professionals.

#### **What is Private Equity (“PE”) and How the PE Model works:**

PE refers to the value added investment approach wherein the fund manager or partner of the PE firm called General Partners (“GPs”) raises fund from investors called as Limited Partners (“LPs”) by getting a significant amount of capital commitments from LPs. When the GPs find an investment opportunity, they issue capital call notices to LPs to draw down the required investment amount from LPs. The LPs undrawn commitments to GPs is called Dry Powder. The return expectations of LPs is generally at an IRR of 25% net of fees and carry.

In PE investing, the GPs are also required to show some skin in the game in order to ensure alignment of interests with LPs, so the GPs put in at the most 5% of the committed capital. The PE manager receives an annual management fee (typically 2%) on the committed capital of the fund. In addition to that, the fund manager receives carried interest or carry, i.e., a share of the profits paid to the GPs (typically 20%) after a minimum rate of return, i.e., hurdle rate or IRR (usually 8%) is realized.

Read More: <https://iaip.wordpress.com/2017/10/29/a-primer-on-indian-private-equity-a-practitioners-perspective/>



## Insights from IAIP Events

### Topic: Value Investing Pioneers Summit, Delhi. Session on “Not everything that counts can be counted” by Prof. Sanjay Bakshi

Contributed by: Ankur Kapur, CFA



The Delhi chapter of CFA Society-India had the privilege of hosting some of the most famous pioneers of Value investing in India during its inaugural Value Investing Summit on 21st Sep 2017. The bad weather at Mumbai and all the hassles at the airport that our prominent speakers had to endure couldn't dampen the zeal even one bit and the event was a huge success.

Prof. Sanjay Bakshi started the much-awaited conference. He shared his thoughts on the topic – “Not everything that counts can be counted”. There are many situations in which applying a financial model may not help in any decision-making. For example, in 2012, Ajay Piramal sold the stake and had a huge pile of cash but no business plan. The company was trading at a value of less than cash, an attractive buy but no financial model could have indicated whether it is a good investment or not since the promoter did not have any business plan. However, given that in the past promoter was able to create immense value for the shareholders was the only basis to assume that promoter will be able to create value going forward as well.



## Insights from IAIP Events



In a presentation to CFA Society India members, Prof. Bakshi in 2012 talked about “understanding the universe of the unknown and the unknowable”. Prof. provided two pointers to assess risk 1) uncertainty is not risk 2) Exposure to uncertainty on favorable terms is desirable. If you are not certain of the risk of investment, it is a speculation at best. Equity markets are volatile and that provides the value investor opportunity to invest. However, these opportunities have to be availed at attractive or favorable terms. Investing in Piramal Enterprises in 2012 provided an opportunity to invest at favorable terms but typical discounting of cash flow approach would not have provided an answer. The way to achieve is to go beyond number and understand the underlying – culture of the company and strength of management.

Read more: <https://iaip.wordpress.com/2017/10/22/topic-value-investing-pioneers-summit-delhi-session-on-not-everything-that-counts-can-be-counted-by-prof-sanjay-bakshi/>

## Insights from IAIP Events

### Value Investing Pioneers Summit, Delhi. Session on “MOAT-A four letter word” By Rajeev Thakkar

Contributed by: Deepak Mundra, CFA and Kanwaljeet Singh, CFA



Mr. Rajeev Thakkar in his session on “MOAT- A four letter word” used a framework provided by Pat Dorsey in his book *The Little Book That Builds Wealth* to explain how moats are created by companies. He explained how moat provides a competitive advantage to a company as compared to its competitors.

Economic Moat refers to identify companies with durable competitive advantage.

Morning star's Pat Dorsey, CFA, suggests that there are four kinds of economic moats that we should look for when analyzing businesses:

1. Intangible Assets- Refers to the Brand power of a Company. The Company's brand is its ability to lock in the customer permanently as a result of which the customer wouldn't look any further and thereby reduces the search cost of the customer as well.
2. Customer Switching Costs-This represents a huge cost to customers when they think of switching a product or a brand and as a result of it the company will command a pricing power from its customer

## Insights from IAIP Events



3. Cost Advantages- An excellent example in a case would be of “Dollarshaveclub” (Company) which challenged the existing and a marquee player “Gillette” purely based on its low cost shaving blade advantage. The Company's CEO reminded its customer as to why they need to pay for a fancy handle and endorsement cost of tennis star Roger Federer for the shaving blade that they get for 1\$ a month and thereby offering a great competitive cost advantage to the Company.

4. Efficient Scale (cost economics)-This refers to the similar Moat as discussed above but the one which is purely backed by the scale-based cost advantage to which the customers are going to stick for long.

Read More: <https://iaip.wordpress.com/2017/10/27/value-investing-pioneers-summit-delhi-session-on-moat-a-four-letter-word-by-rajeev-thakkar/>



## Insights from IAIP Events

### Value Investing Pioneers Summit, Delhi. Session on “My Journey: 0 to 1,000 Crores” – Mr Raamdeo Agrawal

Contributed by: Gaurav Kaushik, CFA

The Delhi chapter of CFA Society-India had the privilege of hosting some of the most famous pioneers of Value investing in India during its inaugural Value Investing Summit on 21st Sep 2017.

The bad weather at Mumbai and all the hassles at the airport that Mr. Raamdeo Agrawal had to endure couldn't dampen his zeal even one bit as he shared his remarkable journey in the equity markets-from 0 to 1300Cr. spanning 30 years !



As a young Chartered accountant in Mumbai, Raamdeo found his calling early and he teamed up with Motilal Oswal in the late '80s to start their broking business. His investment portfolio grew rapidly during the bull run of '91-92.

Read More: <https://iaip.wordpress.com/2017/11/06/value-investing-pioneers-summit-delhi-session-on-my-journey-0-to-1000-crores-mr-raamdeo-agrawal/>

## Women in Finance

### Mobilizing for equality- What Can You Do?

Contributed by: Shivani Chopra, CFA



Women in Investment Management (WIM) is an action-oriented initiative of CFA Institute. It is focused on improving investor outcomes by encouraging diversity in the investment management profession. The data presented in the latest annual report of CFA Society India clearly highlights the business case for gender inclusion in our country. For the FY 2016-17, the gender ratio was 90.3% Males to 9.7% Females. Many factors like society landscape, lack of knowledge and opportunities, etc. contribute towards this underrepresentation. It seems that an average Indian mind is not wired to see women leaders in male dominated professions. The news of Nirmala Sitharaman taking over as India's first full-time woman Defence Minister completely overshadowing other male appointments is a recent case.

While the CFA Institute and CFA Society India fully support this initiative and have taken several steps to raise awareness, all the members must work together to drive the necessary change in a country like India. After all, we are all responsible for meeting investor needs. Below are a few recommendations for our members and employers –

#### Members and Employers

- Determine a baseline of gender diversity- Analyze your firm's gender representation at all levels. Are women well-represented at all levels of your firm? Do they serve on your board? Do you have a women's initiative in place?
- Recruit beyond traditional networks- Women clients often look for advisers who are women, and when a firm doesn't have satisfactory women advisers, they select other firms that do. It requires search firms to produce credible women candidates for top positions.
- Sponsor, mentor, and ensure the visibility of women- Studies show that women are undersponsored. Mentor and sponsor young female managers, provide opportunities that help them develop their skills, and offer the visibility they need to advance—not only internally but also externally with clients.
- Promote and retain more women. As individuals progress to more senior levels in financial organizations, their assessments are more qualitative, which leads to a bias: Those in leadership tend to hire/promote individuals who are more like themselves. You can develop strategies and tools to overcome these unconscious biases that will significantly impact your firm's ability to promote women. We know that people are naturally inclined to hire and promote individuals who are like them, so it is a difficult bias to overcome. Keep the women you have by building a culture that is inclusive. Establish metrics that reward the creation of diverse teams. Determine whether your firm has gender pay gaps and address them.

## Women in Finance

- Create an inclusive culture: Organization culture that makes all employees feel included across its functions is the backbone to all diversity solutions. Decision making should consciously involve employees irrespective of gender and consider their opinion. Have scheduled meetings, within office hours, for all key discussions rather than encouraging informal coteries meeting outside the office. It will encourage women to participate in decision-making
- Promote the CFA Program as a cost-effective, flexible option for career success. Specifically, encourage women to learn more about the Women's Scholarship Program offered by CFA Institute

Read more:

<https://iaip.wordpress.com/2017/05/03/the-case-for-gender-diversity-in-india/>



## Investing vs Trading: An analogy with Cricket...

Contributed by: Sitaraman Iyer, CFA

I believe the world of sports and investments have a lot in common. Being an Indian, I will take the liberty of drawing comparisons between cricket and investments. Over the next few weeks, I will try to cover some themes that are common to these two professions.

### Investing vs. Trading : Analogy with Cricket

#### Test Cricket / Investing



- Intellectual brilliance and patience
- Passive
- More about leaving bad deliveries
- Being in your comfort zone
- Stalwarts of the industry regarded for their investment prowess

#### T20 Cricket / Trading



- Luck and momentum
- Aggressive
- Trying to make something happen
- Getting out of your comfort zone
- Success can be transient , fraternity does not give it adequate respect

Both require different skill sets

#### Are you a Trader or an Investor?

For me, this is most important question one has to ask before indulging in any form of investing because if you are not certain, it could be detrimental. The ability to cut losses and not turn into an investor when you are a trader, or the ability to not cash out early and turn into a trader when you are an investor goes a long way in defining your success in the field of investment.

## Express on WordPress

**For me, the equivalent of short-term trading and long-term investing would be batting in T20 and test cricket, respectively.** Both disciplines require completely different skills and mindsets. Very few people have been successful in juggling both the fields.

No matter how boring a player looks while playing test cricket, it is his ability to leave deliveries (avoid bad stocks and be patient), play risk-free cricket (stick to one's core competencies), and adapt to different situations (identify optimistic/pessimistic market conditions) that stands him in good stead. Test cricket, like investing, is about planning, analysing, and utilising all information around before taking a decision.

In T20 cricket, you have to be restless, attack (quick churn), make impactful contributions (quick gains), and have the ability to ride your luck when the momentum (directional trading) is right. You also have to quickly assess a good score for a particular pitch to plan your innings (identify market pulse in order to time your exit). T20 cricket, like trading, is about predicting short-term flows and taking decisions without the luxury of having all the data points.

Read more: <https://iaip.wordpress.com/2017/07/22/investing-vs-trading-an-analogy-with-cricket/>

## Accounting for Off Balance Sheet Activities

Contributed by: Gaurang S Trivedi, CFA

In order to better assess the true economics of the business and ascertain its value it is imperative that the off the balance sheet items are recorded in the books. This could be done by recording all contractual, guaranteed, contingent or at-risk amounts, that are either expected to be received or to be paid, into the books as an asset or liability with a corresponding contra-liability or asset account.

Consider accounting for operating lease transaction for example. Recording of a contractual Operating Lease arrangement could be done by creating Contra Accounts as

Operating Lease Asset on the asset side and

Operating Lease Obligation on the liability side

Periodic lease rental payments could be credited into

Lease Rental Payment

Cash/Bank

Periodic Amortization of Lease Asset and Obligation over the contractual life of lease:

Operating Lease Obligation

Operating Lease Asset

The net impact is:

- A progressive approach that explicitly recognizes assets available or liabilities assumed by the corporation.
- Provides an objective basis to evaluate the effectiveness of transactions entered into by managements by linking profits and charges associated with the underlying assets and liabilities respectively.
- The contra accounts created have no bearing on profits or cashflow.
- The contra asset and liability accounts created do not affect the book value.
- Efficiency ratios such as Return on Assets and Asset Turnover will be depressed due to a higher asset base until the corresponding asset is fully amortized.
- Debt ratios may be negatively affected if the contra liability is deemed a financing activity.
- If the contra asset account is created as a reserve, the following differing effects may materialize:
  - Book Value will increase.
  - Debt Service ratios will not be affected.
  - Debt to Equity and Debt to Total Capital will be positively affected due to higher Equity Capital.
  - Return on Equity will be depressed due to a higher equity base until the corresponding reserve account is fully amortized.

Read more: <https://iaip.wordpress.com/2017/09/27/off-balance-sheet-items/>

## Career Insights

### How to Become Invisible at Work

Nearly every professional understands the value of visibility. After all, when opportunities arise, the person who is both seen and heard—and known as a strong performer—will always spring to mind first. Yet, sadly, many people are unintentionally sabotaging themselves by engaging in behaviors that make them all but invisible in the workplace. If you're not careful, you may get so comfortable hiding in the shadows that people forget you're there! Below are 5 signs you might be making yourself invisible. Take a look and see if any apply to you. If so, it's time to step out of the shadows and enjoy the sun.

To read further: <https://www.ivyexec.com/executive-insights/2017/become-invisible-work/>

## On a Lighter Note...

- Inflation is when the buck doesn't stop anywhere!

- An economist is an expert who will know tomorrow why the things he predicted yesterday didn't happen today.

- From a trader after a market crash: "This is worse than a divorce. I've lost half my net worth and I still have a spouse."

Q: How did you get your broker to be more careful with your money?

A: Well, I just wrote him into my will.

Q: How do you find a small-cap fund manager?

A: Find a large-cap fund manager and wait.

Q: What's the difference between buying a lottery ticket and buying stocks?

A: In the first case you help finance the local community swimming pool. In the second case you help finance your stockbroker's home swimming pool.

Q: Why was astrology invented?

A: So that economics could be considered an accurate science.

Q: What's the easiest way to make a small fortune with binary options?

A: Start with a large fortune.

## Announcements and Credits

### Feedback/Request for Articles

Please send feedback or interesting articles like book reviews, humor, lighter reading, personal experiences etc. to be covered in the Newsletter to: [communication@iaipirc.org](mailto:communication@iaipirc.org)

### Join fellow Charter holders on social media

Join IAIP member group on LinkedIn and Facebook by searching for Indian Association of Investment Professionals.

### Updates at WordPress ([iaip.wordpress.com](http://iaip.wordpress.com))

Stay updated about the society events by visiting [iaip.wordpress.com](http://iaip.wordpress.com). Have strong expertise and views on any area of financial markets? Express on the WordPress. Have you read any interesting business, investment or finance book? Share your reviews with fellow Charter holders. Brief notes as well as select photographs of almost all the events since January 1st 2011 are posted on [iaip.wordpress.com](http://iaip.wordpress.com).

### Programs and Events

Now you could register for the forthcoming event on the [www.cfasociety.org/India](http://www.cfasociety.org/India) page by clicking on the Events tab and Event Registration

([www.cfasociety.org/India/Pages/EventRegistration.aspx](http://www.cfasociety.org/India/Pages/EventRegistration.aspx))

Kindly send in suggestions on topics around which you would like us to organize events. Members, having access to insightful speakers are requested to come forward and help in facilitating events around them. This will enhance value to the member community. Please email to the Programming, Events & Networking committee members: [sonai.x.gandhi@gmail.com](mailto:sonai.x.gandhi@gmail.com), or [secretary@india.cfasociety.org](mailto:secretary@india.cfasociety.org).

### Want to Volunteer?

IAIP is always looking to increase member participation and provide networking opportunities. You are most welcome to volunteer for our society to make it more vibrant. It will offer you with an opportunity to interact with members and the investment community, CFA charter holder community and keep in touch with the latest developments in the financial industry. It also provides a good platform for developing leadership skills. It is also an excellent forum for giving back to our profession.

To understand more and join one of the committees reach out to any of us or Volunteer Committee or Manisha and Mansi at [secretary@india.cfasociety.org](mailto:secretary@india.cfasociety.org).

You could also fill in the form on the website [www.cfasociety.org/india](http://www.cfasociety.org/india) under Membership tab and Volunteer option. Complete list of committees and its active volunteers kindly visit page [www.cfasociety.org/india](http://www.cfasociety.org/india) under "About Us" tab click on the "Committees" button.



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