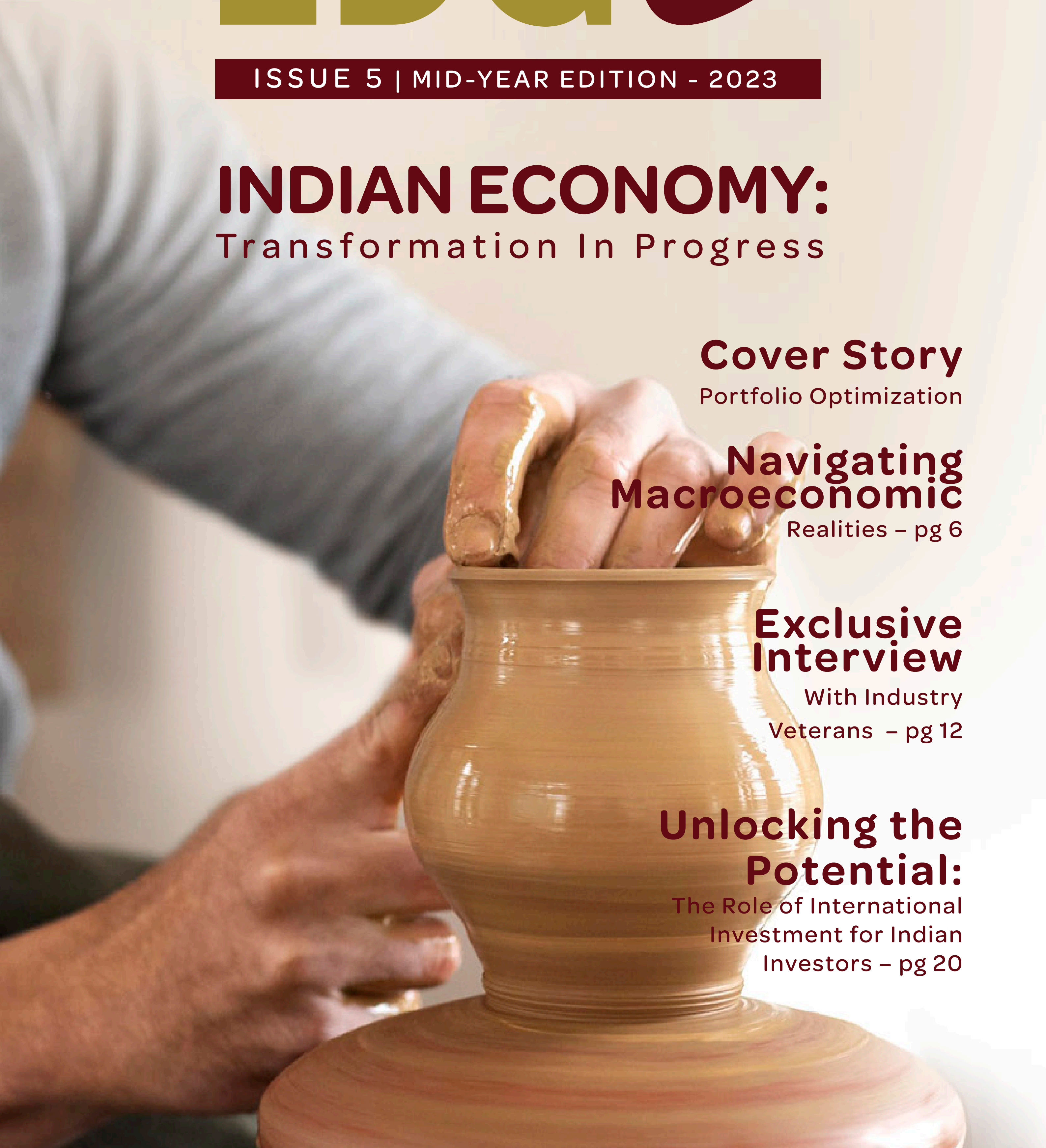
TATA CAPITAL WEALTH

EDGE

ISSUE 5 | MID-YEAR EDITION - 2023

INDIAN ECONOMY:
Transformation In Progress



Foreword

TATA CAPITAL WEALTH

Mr. Rajiv Sabharwal

Managing Director & CEO,
Tata Capital Limited

As we reach the midpoint of the year, I wanted to take a moment to reflect on the current state of the economy, express our appreciation for your continued support, and share our vision for the future.

The year 2023 has been an eventful one so far, marked by both challenges and opportunities. Last year we witnessed global headwinds and uncertainties at domestic level on the back of the Russia Ukraine war, inflationary pressures, erratic bond markets and stir in the start-up ecosystem. However, our Indian economy continues to remain resilient.

As we look ahead to the second half of the year, we recognize that uncertainties and challenges persist. Geopolitical dynamics, global economic shifts and supply chain disruptions continue to shape the world around us.

With India's strong economic indicators and focus on infrastructure building by the government, I'm optimistic that the Indian economy will continue to progress steadily amid global uncertainties and challenges.

At Tata Capital, we firmly believe that our clients are at the heart of everything we do. Your trust and confidence in us are invaluable, and we are committed to serving you with the highest levels of integrity, expertise, and personalized attention.

I assure that our team of experienced professionals will continue to spend time in understanding your aspirations, managing portfolio risks, and optimizing returns, all while keeping your best interests at heart.

Together, we can navigate the challenges and seize the opportunities that lie ahead, building a prosperous future for you and your loved ones.

Mr. Saurav Basu

Business Head – Tata Capital Wealth,
Tata Capital Financial Services Limited

As I present our brand-new Mid-Year Newsletter 2023 - EDGE, the Indian equity markets have reached new heights, with remarkable all-time highs in first half of 2023. The markets have exhibited resilience and strength despite the numerous global challenges and high inflation scenario. While, the markets are at all-time highs, it is essential to maintain a balanced perspective and continue to make informed investment decisions to achieve your financial goals.

Keeping this in mind, our mid-year newsletter carries curated content designed to keep you informed and help you navigate the ever-changing investment landscape. The newsletter covers diverse array of topics, right from India growth story to market trends to key economic indicators, and investment strategies. We firmly believe that staying informed is essential for making prudent investment decisions, and our aim is to equip you with the knowledge and insights necessary for success.

At Tata Capital Wealth, our commitment to our clients goes beyond providing insightful articles. We pride ourselves on offering personalized wealth management services that cater to your specific financial goals. Our team of experienced professionals is dedicated to understanding your unique requirements, risk appetite, and long-term aspirations. We work closely with you to develop customized investment strategies, utilizing our vast array of financial products and services.

As we move forward into the second half of the year, we are excited to continue partnering with you on your wealth management journey. Keep investing with us!

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We flourish when you prosper.

Tailor made solutions at your fingertips.

We believe in enriching your financial identity because your financial identity is just as important as your personal identity. We bring a whole range of products and services at your fingertips.

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Economy Watch

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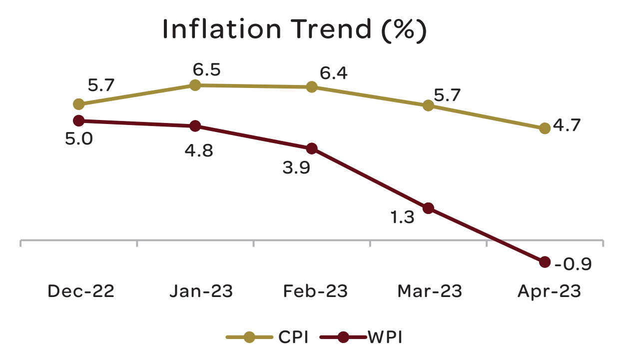
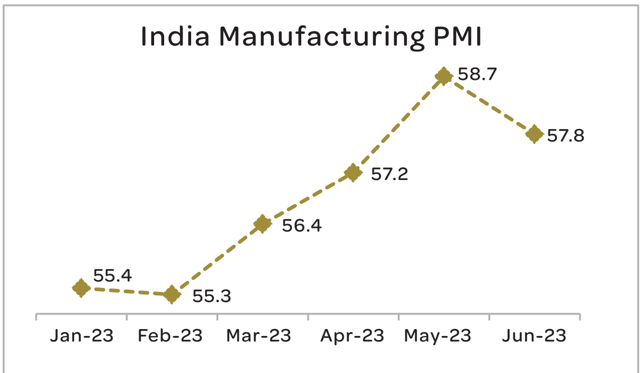
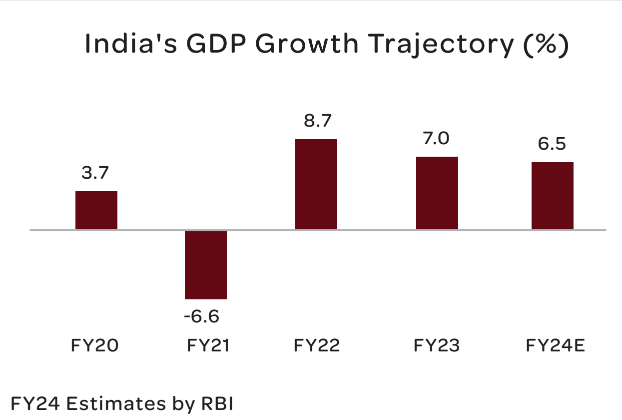
Navigating Macroeconomic Realities: **Positives**



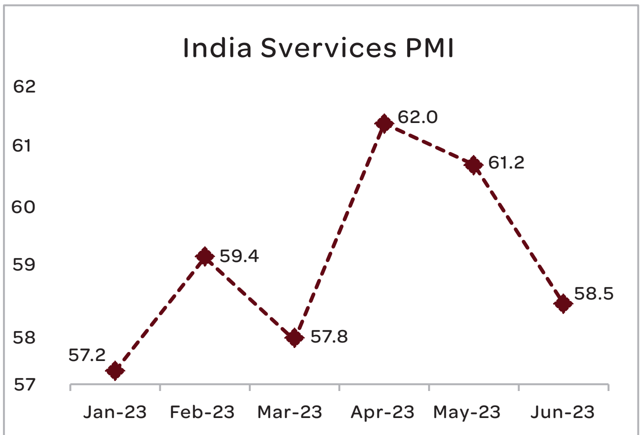
Inflation has largely stabilised



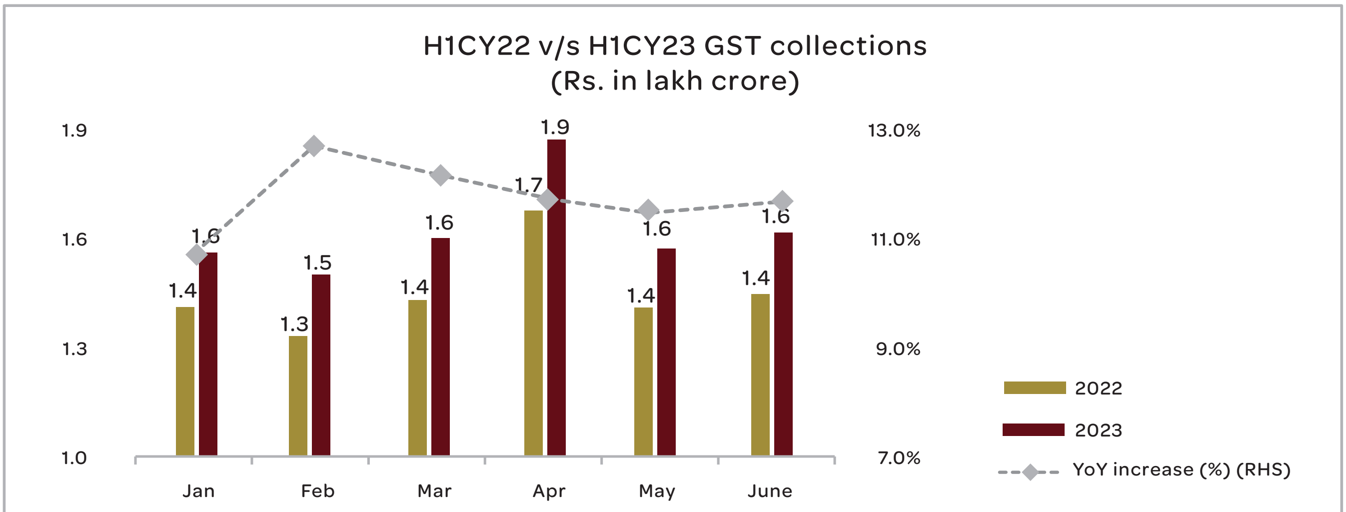
Manufacturing activity has been in expansionary mode



Domestic growth seems resilient despite global slowdown fears



PMI data indicates robust expansion in Services sector



GST data indicates that overall tax collections continues to remain robust

Common source: Investing.com, RBI, Mospi

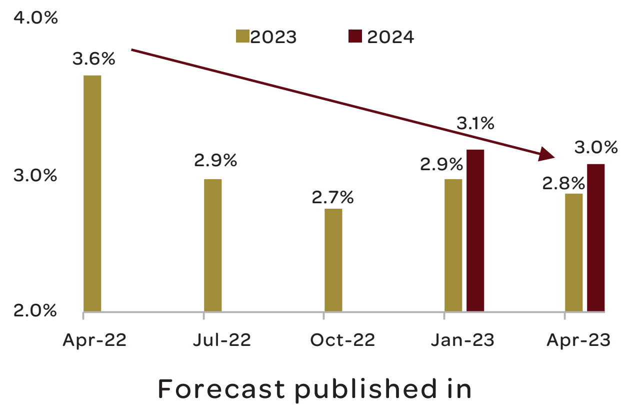
Navigating Macroeconomic Realities: **Negatives**

Interest rates changes by major central banks

Interest Rate	As on 1st Jan 2022 (%)	As on 30th Jun 2023 (%)	Change in %
China	3.85	3.55	-0.30
Japan	-0.10	-0.10	No change
Malaysia	1.75	3.00	1.25
India	4.00	6.50	2.50
Euro area	0.00	4.00	4.00
Canada	0.25	4.75	4.50
Brazil	9.25	13.75	4.50
United Kingdom	0.25	5.00	4.75
United States	0.25	5.25	5.00

Steepest rate hike cycle – led by West

Global real GDP growth forecasts published by IMF



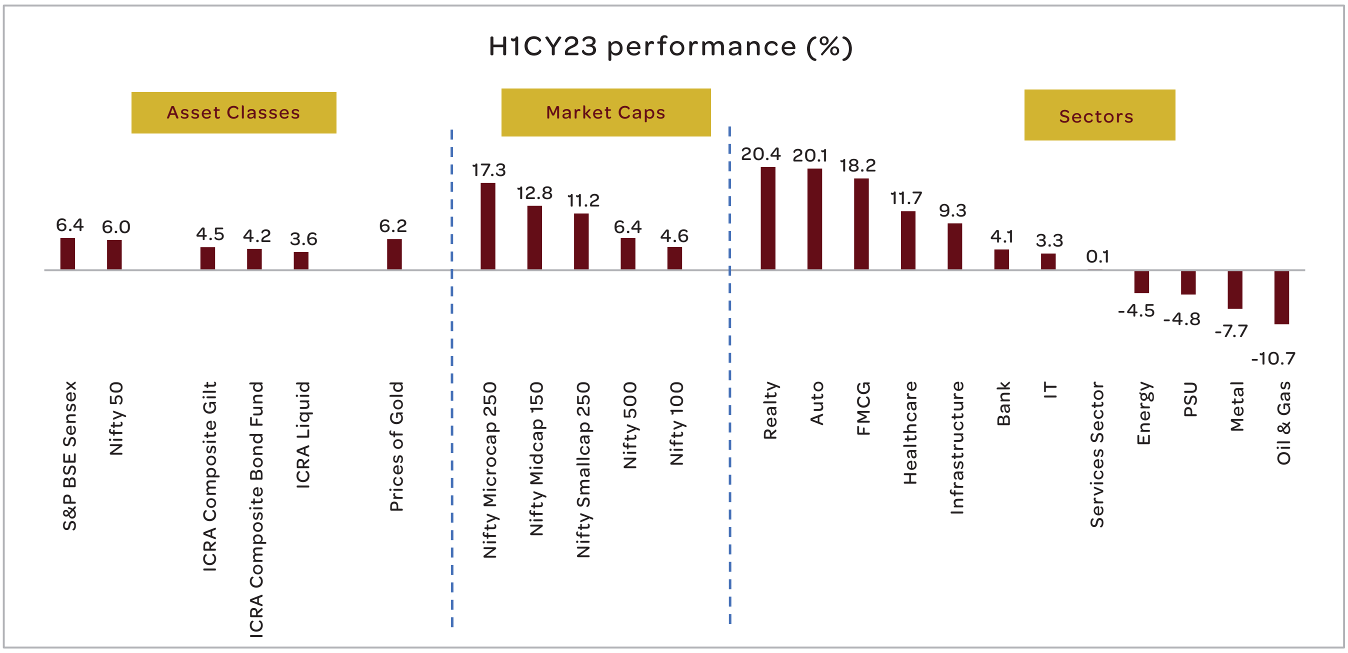
IMF drastically lowers Global Growth Forecast for 2023 from 3.6% to 2.8%

US and Europe Banking Crisis impacted global financial markets

El Nino conditions could influence monsoons in India, which would have an impact on food prices, inflation and economic growth

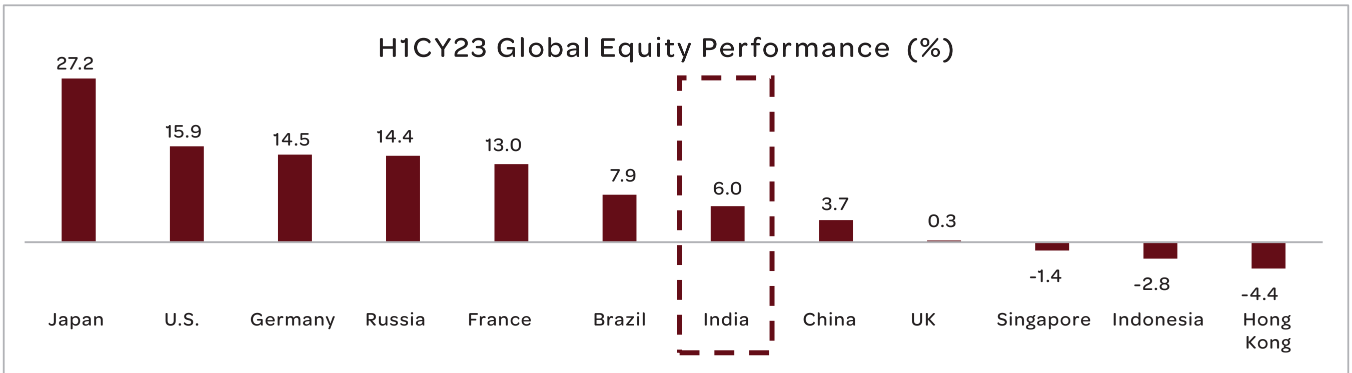
Market Performance

The Half-Year Gone By - Market Performance in H1CY23



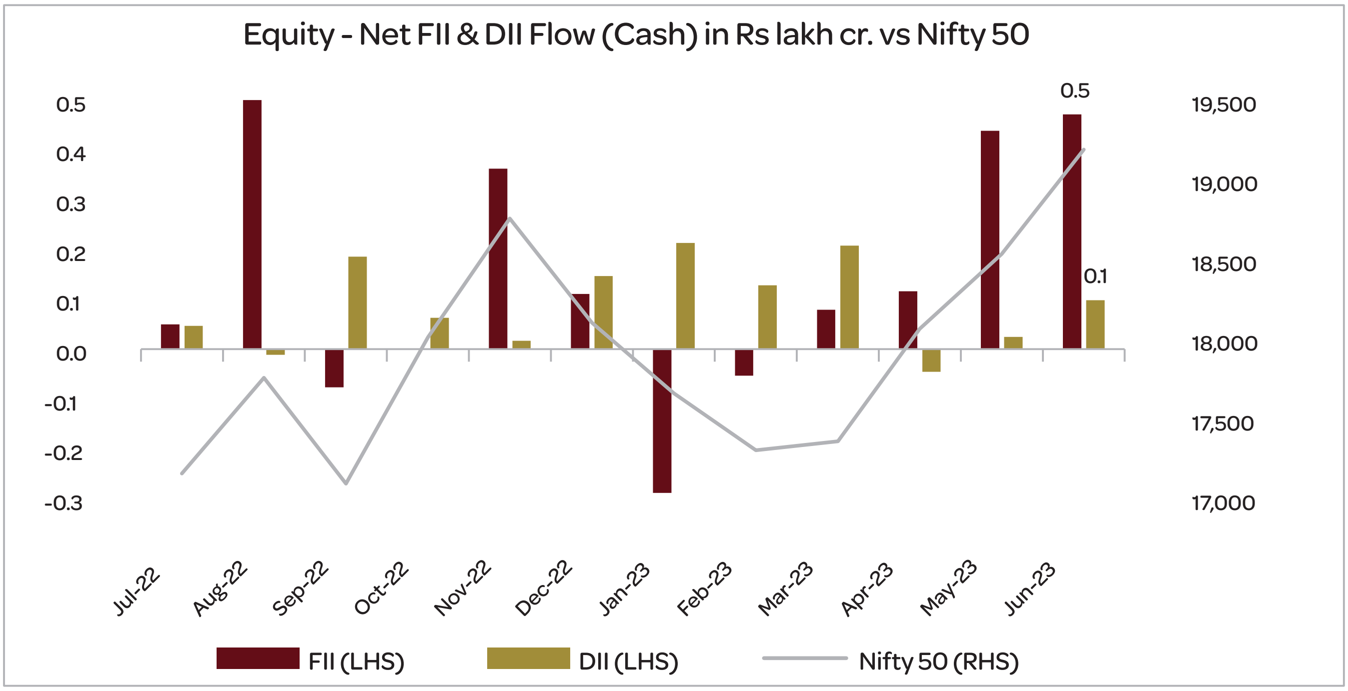
Source: ICRA MFI. NSE Sectoral indices. Performance is shown for Price Return Index for equity indices. Data as on Jun 30, 2023

- Indian equity markets have proved their potential yet again, with **Nifty 50 Index touching 19,000 mark and Sensex touching 64,000 - first time ever in first half of 2023.**
- For H1CY23, **Gold (6.2%) delivered almost on par returns compared to Sensex & Nifty 50 Index** generated 6.4% & 6.0% respectively.
- **Microcaps outperformed** Small, Mid and Large caps in H1CY23.
- Among Nifty's sectoral indices, top gainers - **Realty, Auto and FMCG.**
- Bottom performers - **Oil & Gas, Metals and PSU.**

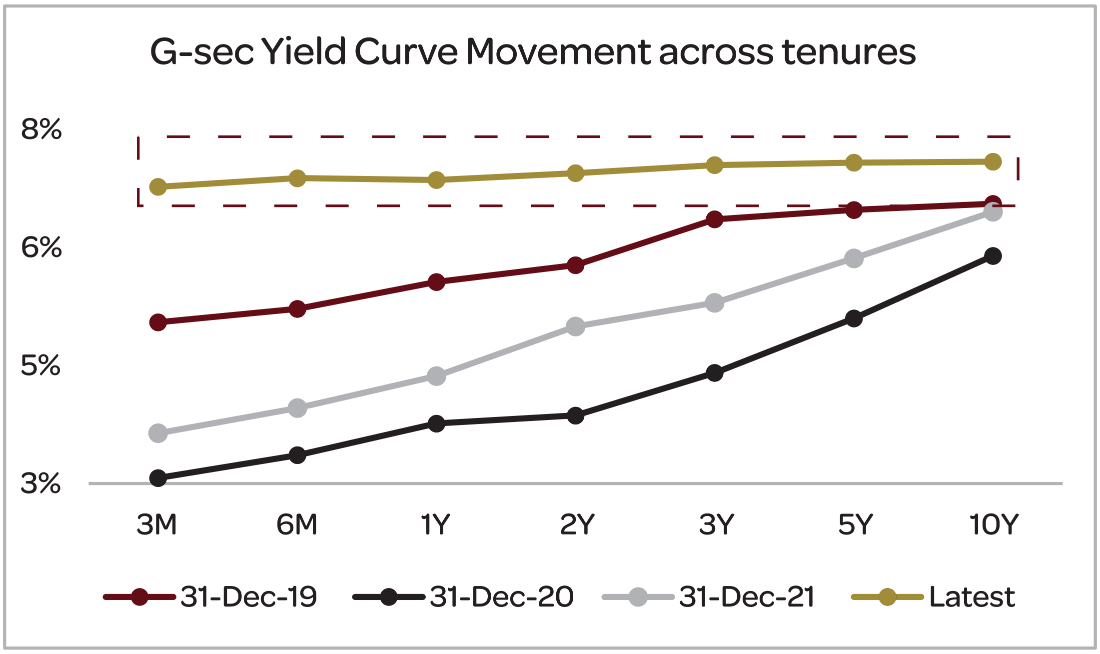


Index used: Brazil - Ibovespa Sao Paulo, India- Nifty 50, Singapore - Strait Times, Indonesia – Jakarta Composite, U.K. – FTSE 100, Japan – Nikkei, France – CAC, Germany - DAX, China – SSE Composite, Hong Kong – Hang Seng, U.S. – S&P 500. Russia - Russell 1000. Source: ICRA MFI. Data as on Jun 30, 2023.

- Majority of the global equity markets ended in green in H1CY23; **Japan, U.S. and Germany gained the most.**
- Bottom performers were Hongkong, Indonesia and Signarpore.



- For H1CY23, **Foreign Institutional Investors (FIIs) invested a net investment of INR 0.8 lakh crore.** June marks the highest level of investment by FIIs in the last ten months.
- FIIs continued to stay bullish on Indian markets primarily due to upbeat domestic macros, coupled with intense monsoon activity and a gloomy global economic picture.
- **However, Domestic Institutional Investors (DIIs) inflows have been lower at INR 0.6 lakh crore as compared to FIIs for H1CY23.**



Latest data as on Jun 30, 2023

- RBI increased rates aggressively in 2022, yield curve across tenure has shifted upwards making the yield on fixed income space attractive

Common source: Investing.com, NSE India, NSDL

Event Spotlight

Crucial Events on the Radar

US and Other Global Events:

US policy trajectory:

Central Bank	Stance	Quantum of rate hikes (since Mar-22) (in%)
US Fed	Hawkish	5%
Rest of the year 2023	??	??

- Fed did a hawkish pause in Jun-23
- Average dot plots (expected fed rates) imply two more rate hikes in 2023
- No FOMC member expects rate cuts in 2024

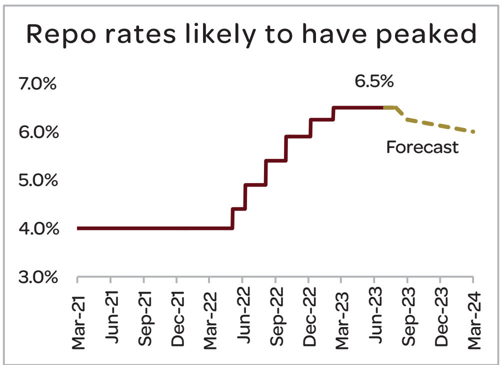
Other global events:

Russia Ukraine War

Recession fears in US and Europe

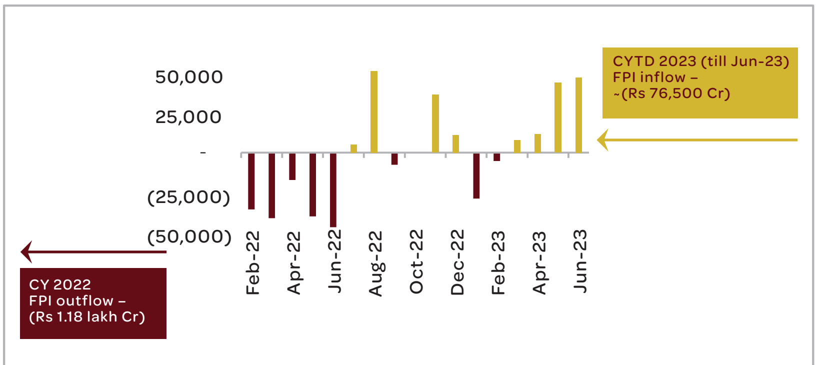
India

Peaking Repo Rates:



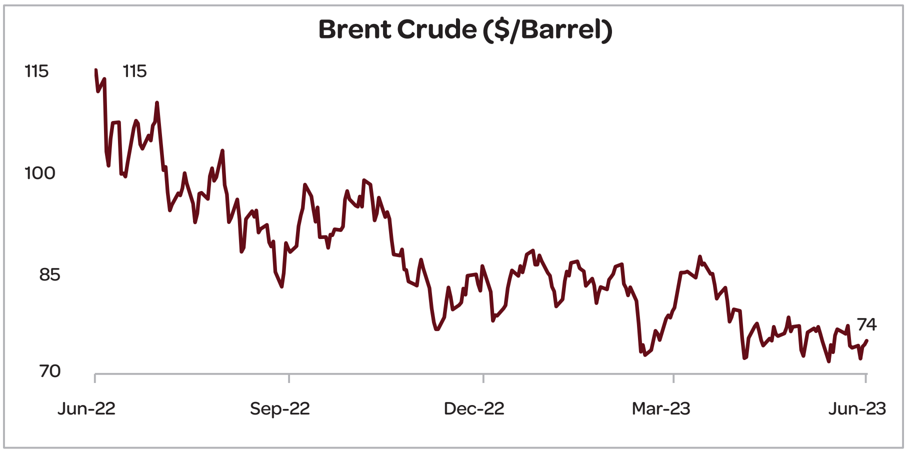
Median forecasts show that rates have peaked, while inflation has started to cool-off

FII Flows:



FII inflows sees come back in H1CY23, will this trend continue in H2CY23 too?

Crude Oil:



- Prices of crude oil is incrementally seen as a direct proxy to geo political tensions
- For India, rising crude is one of the largest economic risks

Common source: Investing.com, RBI, NSDL

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Exclusive Interview - Equity

Mr. Aditya Sood

Fund Manager, InCred Asset Management

We conducted an exclusive interview with Mr. Aditya Sood, Fund Manager, InCred Asset Management to know the investment process in depth and emerging investment themes to enable the investors make informed decisions. The questions and answers are reproduced here.

1. **What are the key themes you are bullish on for FY24? How do you expect the market to play out for rest of the financial year?**
In FY2023 we saw an environment which we have not seen in decades, the uncertainty was reflected not just in rising stock volatility, excessive volatility in currency markets and also erratic bond markets. The near-term buoyancy in the equity markets have been supported by FIIs turning buyers of Indian equities after being sellers for most of FY23. Global equity flows continue to shift from DMs (Developed markets) to EMs (Emerging markets) since the start of CY23. Market valuations have become more reasonable after large time correction over the past two years.

There is no playbook for an economy wherein demand exceeds supply and unemployment is near all-time lows, yet interest rates are rising fast, liquidity is draining due to quantitative tightening, and inflation is rampant. Though, the surprise pause by the RBI in hiking rates has helped the sentiment. We believe 2HFY24 could be more rewarding for investors as we get past the peak interest rate cycle. Investors should use the bouts of volatility to increase allocation to equities ahead of the general elections in FY24.

In a market that has been range bound, there are themes that may stand out as we have witnessed in the case of financials decadal low credit cost coupled with a resurgence in credit growth led to a rerating in the sector.

We have a positive stance on Manufacturing, Industrials, Healthcare, IT & ITES, Consumer Discretionary, and Consumer Staples. Similarly, Auto Thematic funds benefited on account of resumption in volume growth in Passenger vehicles and Commercial vehicles and an anticipated decline in raw material cost as the auto companies are commodity consumers.

2. **What is the overall sentiment towards equities right now? What is the sense you are getting from your clients as well as others in the market?**
As we enter election year the overall sentiment in the market may be sanguine. Which is boosted by expectation of peaking rates both globally & domestically and mean reversion of profitability on account of normalisation of cost of corporate India. Although demand environment continuous to be tepid on account of global slow down, **we believe the margin reversal of FII selling can be a key variable to watch for.**

> *"We believe 2HFY24 could be more rewarding for investors as we get past the peak interest rate cycle. Investors should use the bouts of volatility to increase allocation to equities ahead of the general elections in FY24."*

3. **Equity markets are at all-time high, do you think valuations have reached at reasonable levels?**
We have seen broadly two years of consolidation in the market, the Nifty P/B on a trailing basis is 3X which is a 7.5% premium of 10-year average of 2.7. **We believe this valuation may sustain if we have earning growth in the range of 10-15% in FY24-25.**

4. **Both of your PMS strategies "InCred Multicap Portfolio" and "InCred Small & Mid Cap Portfolio" have beaten the benchmark across periods and since its inception. What is your investment mantra to produce your alpha?**
The core of our strategy is to focus on buying **great businesses at a reasonable valuation** and focus on **compounding returns in high-quality companies** and **buying good companies at a discount.** These are typically **market leaders** that have a **high market share** with a **disproportionate profit pool share** in the sector. Our belief is predicated on the fact that great companies **use downcycles to transform** themselves and bounce back stronger in an upcycle. In most cases, these companies may have a history of trading at much higher valuation multiples in the immediate past but more importantly, they are expected to compound profits at approximately 15-20%.

We focus on bottom-up stock-picking opportunities by actively focusing on sizing and concentration with conviction-driven approach. Our strategy also lays emphasis on avoiding the sectors wherein valuations are expensive and staying disciplined across market cycles.

5. **In light of global recession and uncertain interest rate scenario, how is the portfolio positioned across the schemes you are managing?**
At this juncture considering high global inflation and policy constraints of the central banks, we favor a bottom up investing strategy especially after correction that has been witnessed in small cap companies. We use quantitative and qualitative parameters of framework to rate the businesses before investing. We recognize that the same market tremors that have weighed on performance have also created significant opportunities to add companies that have been mainstays of our watchlist at exceptionally compelling entry points.

We continue to refine our positioning to meet the challenges of today but continue to maintain high conviction in the companies we own and their long-term prospects. We have increased the level of concentration in the portfolio, the top 10 holdings account for 61% of the small cap portfolio, and 56% of the multicap portfolio. We have also downsized the number of portfolio holdings in our portfolio.

Data as on 31st May 2023

"We have a positive stance on IT & ITES, Healthcare, Manufacturing and Consumer Discretionary."

6. **With InCred Small & Midcap Portfolio being heavy on small caps, how do you see small and midcap stocks performing in FY2024? Can you provide us with an overview of the portfolio composition and what are the sectors this fund primarily invests in?**
There has been a divergence that has been witnessed in small cap vs large cap performance in FY23.

We took overweight stance in Small & Mid cap, six months back after we witnessed a very sharp correction in large number of small & mid cap companies, which coincided by underperformance of small cap index with Nifty. If we see look at the data, Nifty Small cap index underperformed Nifty by 13% in FY23, whereas small-caps corrected the most over last year when compared to mid and large-caps thus creating an opportunity.

We have a positive stance on IT & ITES, Healthcare, Manufacturing and Consumer Discretionary.

Exclusive Interview - Debt

Mr. Manish Banthia

CIO Fixed Income, ICICI Prudential Asset Management Company Limited

We conducted an exclusive interview with Mr. Manish Banthia, CIO Fixed Income, ICICI Prudential Asset Management Company in order to know ICICI Prudential Asset Management Company Limited in depth and enable the investors to make informed decisions. The questions and answers are reproduced here.

1. **What are your views on fixed income market in current scenario? How do you see the yields moving in near to mid-term?**
   Fixed income markets have witnessed movement from a rising interest rates phase to a range bound, sideways phase. This shift has been primarily due to the pause in RBI's rate hiking spree as domestic macros continue to remain resilient and inflation prints have softened.

   In the near to mid-term, we expect yields to steepen in 5-year to 10-year bonds due to higher supply.

2. **What is the impact of the global banking crisis on Indian bond markets?**
   Indian bond markets had limited impact from the banking crisis in the US & Europe. In March 2023, as the crisis unfolded, our credit spread yields did not move as witnessed in US specially for the smaller banks. This could be attributed to the good health of our financial system supported by the corporate de-leveraging.

> *"Indian bond markets had limited impact from the banking crisis in the US & Europe."*

3. **What's your current assessment of the Indian economy? Do you think the pause to rate hikes by RBI can remain for long or is it too early to draw that conclusion? And how do you see the global rate outlook going ahead?**
   Indian economy continues to remain strong. The only area where we see some built up on risk is unsecured personal credit. **The RBI's future course of action would be dependent on the growth and inflation dynamics.** Our base case scenario is that RBI remains on a pause for an extended period of time. Short term phenomena like the progress of the south west monsoon and the tone of global central banks would determine the immediate risk-on/risk-off sentiments in the markets.

   Globally, rates are trading above neutral level due to uncomfortably high inflation. **The US Fed, ECB and other major central banks are focused on bringing down inflation growth, and thus interest rates may remain elevated in the near future.** Only with inflation cooling down or the labour markets easing will allow Fed to lower its guard on monetary tightening.

4. **Rates are being said to have peaked, thanks to back-to-back pauses. Is it the right time to consider duration funds or is it better to wait till we have clarity on rate cuts?**

We expect the markets to move in a range and RBI to remain on long pause, there will be opportunities to trade duration in a particular range. The recent change in taxation led to a large inflow of money in the fixed income products for both mutual funds and insurance companies. This up fronted demand caused the longer-end yields to come off. But we see this as a temporary phase as most of the demand is already saturated. Going ahead, demand in long duration assets is expected to fall short of the supply. Hence, we expect long-term bond yields to move higher. The shorter end of the curve is more reasonably priced and we find better value in the shorter end of the curve.

"We expect the markets to move in a range and RBI to remain on long pause, there will be opportunities to trade duration in a particular range."

5. **How to follow a Core and Satellite approach for the debt-fund portfolio?**

- **Core Approach:**
  Core approach would be to focus on accruals. This includes capturing spreads wherever they are attractive. Investors should focus on short to moderate duration schemes, as the flat yield curve offers attractive yields while minimizing interest rate risk.

  A dynamically managed scheme is preferred as an investment tool to hedge against market volatilities and generate trading opportunities.

- **Satellite Approach:**
  Satellite approach would be to trade longer-duration as it moves towards higher side of the range.

Mutual fund investments are subject to market risks, read all scheme related documents carefully.
The views expressed in this article are solely of the author and do not necessarily reflect the views of Tata Capital Wealth.

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Economic Calendar

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Economic Snapshot: Calendar of Key Indicators

View of upcoming events and trends to watch for in the next 9 months

Jul-23

- 12th - CPI data India (Jun-23) and IIP data (May- 23) for India
- 25-26th - US Fed Policy meet
- 28th - BoJ Interest Rate Decision

Aug-23

- 3rd - U.K. BoE Interest Rate Decision
- 8-10th - RBI MPC Policy meet
- 11th - IIP data (Jun-23) for India
- 14th - CPI data (July-23) for India
- 22-24th - BRICS leaders' summit in South Africa

Sep-23

- 4-7th - 43rd ASEANLeaders' Summit in Indonesia
- 12th - CPI data (Aug-23) and IIP data (Jul-23) for India
- 19-20th - US Fed Policy meet
- 21st - U.K. BoE Interest Rate Decision
- 22nd - BoJ Interest Rate Decision

Oct-23

- 4-6th - RBI MPC Policy meet
- 9-15th - IMF and World Bank annual meetings
- 12th - CPI data (Sep-23) and IIP data (Aug-23) for India
- 30-31st US Fed Policy meet
- 31st - BoJ Interest Rate Decision

Nov-23

- 2nd - U.K. BoE Interest Rate Decision
- 10th - IIP data (Sep-23) for India
- 13th - CPI data (Oct-23) for India

Dec-23

- 6-8th - RBI MPC Policy meet
- 12th - IIP data (Oct-23) & CPI data (Nov-23) for India
- 12-13th US Fed Policy meet
- 14th - U.K. BoE Interest Rate Decision
- 19th - BoJ Interest Rate Decision

Jan-24

- 12th - IIP data (India) for Nov-23 and CPI data (India) for Dec-23
- 31st - Economic Survey 2024-25

Feb-24

- 1st - Union Budget 2024-25 and U.K. BoE Interest Rate Decision
- 6-8th RBI MPC Policy meet
- 12th - IIP data (Dec-23) and CPI data (Jan-24) for India

Mar-24

- Presidential election in Russia in March 2024
- 12th - IIP data (Jan-24) and CPI data (Feb-24) for India
- 21st - U.K. BoE Interest Rate Decision

All dates are expected dates of release and are subject to change.

IIP: Index for Industrial Production, WPI: Wholesale price Index, CPI: Consumer Price Index, RBI: Reserve Bank of India, MPC: Monetary Policy Committee, BoE: Bank of England, BoJ: Bank of Japan, BRICS: Brazil, Russia, India, China and South Africa, ASEAN: Association of Southeast Asian Nations, IMF: International Monetary Fund, Fed: US Federal Reserve

TATA CAPITAL WEALTH

Portfolio Optimization: Aligning Risk Profile and Goals with Investment Products

Mr. Gaurav Talwar

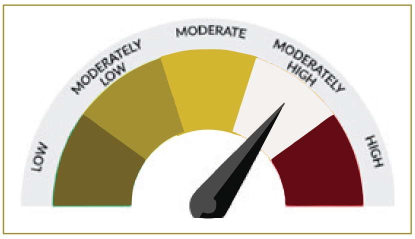
Product Head, Tata Capital Wealth

In the dynamic world of finance, finding the right balance between risk and return is paramount to achieving long-term financial success. By carefully assessing risk tolerance, time horizon, and investment objectives, portfolio optimization aims to maximize potential returns while minimizing exposure to unnecessary risk. This process involves diversification, asset allocation, product selection and regular monitoring to ensure that the portfolio remains aligned with changing market conditions and the investor's evolving needs. In this newsletter article, we will delve into key pointers to help you make informed decisions and maximize your investment potential.

Assess your risk profile → Define Financial Goals → Diversification → Product Selection → Regular Assessment and Rebalancing

1. Assess Your Risk Profile:
Understanding your risk profile is the foundation of portfolio construction. Consider the following factors when determining your risk tolerance:

i. Time Horizon: Determine your investment time horizon by assessing when you will need to access the funds. Longer time horizons typically allow for a higher risk appetite.



ii. Financial Situation: Evaluate your current financial standing, including income stability, debts, and liquidity. A stable financial position can afford greater risk exposure.

iii. Emotional Capacity: Gauge your ability to endure market fluctuations and tolerate potential losses without making impulsive decisions. Emotional stability is crucial for long-term investors.

2. Define Financial Goals:

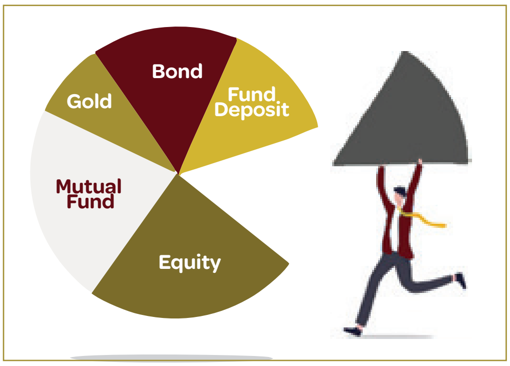
Clearly articulating your financial goals is essential for developing a portfolio allocation strategy. Consider short, medium and long term goal based method when planning your investment approach.

Along with having defined planned goals one should also remember to have adequate life and health insurance.

3. **Diversification:** Once your risk profile and goals are defined, diversification becomes a key element in portfolio allocation. Consider the following diversification strategies:

a. Asset Allocation: Allocate funds among various asset classes, such as stocks, bonds, real estate, commodities, and cash equivalents. The proportion depends on your risk tolerance, time horizon, and financial goals.

b. **Geographic Allocation:** Invest in both domestic and international markets to avoid concentration risk associated with a single region or country.



4. Product Selection: Along with this portfolio construction approach another important consideration is selecting the products suitable for your investment needs. Along with this portfolio construction approach another important consideration is selecting the products suitable for your investment needs.

a. Listed Equity Investing: There are various ways to invest into equities other than buying direct equity shares. The most basic and popular investment option is to go through the MF (Mutual Fund) route which offers various categories of products and well diversified portfolios. However, here it's important to review that your funds don't have a high portfolio overlap.
For sophisticated investors there are plethora of options from the PMS (Portfolio Management Scheme) & AIF (Alternative Investment Fund) space. While, PMS provides plain vanilla direct equity investing, the AIFs provide variety of strategies including Long only funds, long - short funds & hybrid strategies. All of these provide differentiated risk return profile which can help in portfolio optimization.
For global investing there are options available right from MFs, direct equity to ETFs that can diversify the portfolio geographically. For sophisticated investors, there are options available such as Hedge funds, Private equity & Life settlement funds which are differentiated opportunities for Indian investors.

b. Unlisted Equity:
The listing of startups in the last 3-4 years have ignited this space. There are promising opportunities to invest in the unlisted space directly by buying these companies and also through investment options like Private Equity & Venture Capital funds.

c. Debt Investing:
Debt has an important role to play in any portfolio and today it's an attractive space due to high yields. Conservative investors can invest into better rated Corporate FDs, Bonds and MF categories oriented towards AAA rated papers while aggressive investors can look at AA & A rated bonds and also explore Credit AIFs which provide exposure to areas like performing credits and structured debt opportunities.

> *"Remember, the investment journey is a marathon, not a sprint. Stay committed, informed, and adaptable to navigate the ever-changing investment landscape"*

5. Regular Assessment and Rebalancing: A well-structured portfolio requires periodic assessment and rebalancing. Market conditions, economic trends, and changes in personal circumstances can affect your risk profile and goals. Consider the following key points:

- Monitor Performance Regularly
- Realign Allocation
- Seek Professional Advice

Conclusion
Allocating funds in a portfolio that aligns with your risk profile and financial goals is a critical component of successful investing. By assessing your risk tolerance, defining objectives, diversifying your holdings, and regularly reassessing your portfolio, you can position yourself for long-term growth and financial well-being. Remember, the investment journey is a marathon, not a sprint. Stay committed, informed, and adaptable to navigate the ever-changing investment landscape.

Global Investing

Unlocking the Potential: The Role of International Investment for Indian Investors

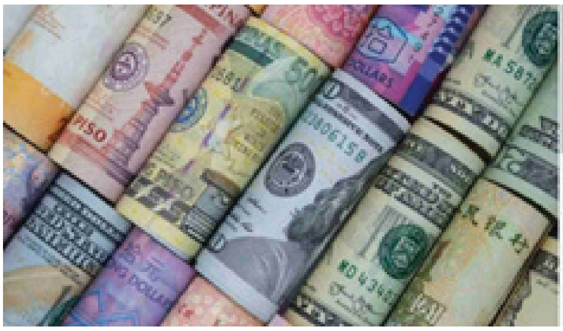
- Meet Rajesh, a 40-year-old Indian professionaland father of two children.
- He has been investing solely in the domestic market via mutual funds, stocks, bonds, FDs and cash for the past 15 years.
- However, Rajesh is starting to realize the limitations of investing solely in the Indian market and wants to explore the potential benefits of international investment.
- Also, he wants to send his children abroad for higher education.

Let's follow Rajesh's journey as he unlocks the potential of international investment:

Access to Global Industries:
Rajesh is intrigued by the rapid growth and innovation in the different sectors worldwide. He recognizes that many global giants are driving advancements and disrupting industries. By investing internationally, Rajesh will gain exposure to companies like Apple, Amazon, Loreal, Alibaba, Samsung, Google, etc. which are top companies in their respective domains. This exposure allows him to participate in the growth of these global industry leaders and potentially benefit from their success.

Diversification and Risk Mitigation:
Rajesh's domestic investment portfolio consists products mainly of domestic markets. While these products have performed well historically, Rajesh is concerned about the potential risks associated with overexposure to a single market (India). He decides to allocate a portion of his portfolio to international investments to diversify his holdings and reduce risk.

Currency Diversification and Hedging:
As Rajesh explores international investment options, he realizes the value of currency diversification. He considers investing in countries whose currencies have a history of appreciating against the Indian rupee. By holding assets denominated in different currencies, Rajesh can potentially offset any losses from currency depreciation in the Indian market. This strategy acts as a natural hedge and provides an additional layer of protection for his investment portfolio.



Research and Risk Assessment:
Rajesh understands that investing internationally comes with its own set of risks. Rajesh starts following global news, studies market trends, and consults with investment professionals to make well-informed decision to invest in global markets.

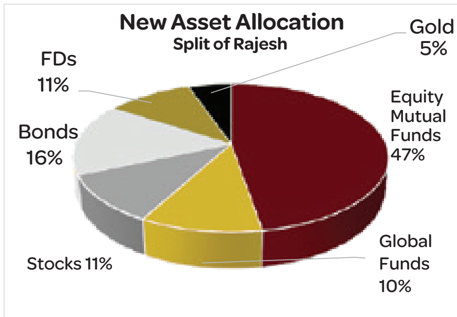
Global Investing

TATA CAPITAL WEALTH

Investment Vehicles and Portfolio Optimization: Rajesh evaluates different investment vehicles to access international markets. Rajesh explores **Tata Capital Wealth offerings** which have full suite of products spread across domestic and global markets. He explores international products such as mutual funds, ETFs, bonds, hedge funds and stocks. through Tata Capital Wealth. He decides to invest in a globally diversified mutual fund and global ETF, which allows him to gain exposure to global markets.

Rajesh adds international exposure to his existing portfolio and is able to optimize his portfolio based on his risk tolerance and investment goals.

By unlocking the potential of international investment, Rajesh achieves a more robust and well-rounded investment portfolio that aligns with his long-term financial goals and regularly reviews his asset allocation.



Disclaimer: This scenario is fictional and for illustrative purposes only. The article has been curated by Tata Capital Wealth Research team. The content does not construe to be any investment, legal or taxation advice.

Would you like to explore global investment opportunities through Tata Capital Wealth?

Yes, I'm interested

TATA CAPITAL WEALTH

Private Credit: An Evolving Dimension

Mr. Niraj Karia

CEO - Private Credit, Kotak Investment Advisors

Private Credit, also known as 'Alternate Credit', has gained significant traction in recent years as a vital component of the global financial landscape. It also presents an alternate investment avenue for investors seeking attractive returns and portfolio diversification. Private Credit Investments are higher yielding credit investments tailored to address either higher credit risk or customized repayment structures. These serve as an alternative when banks are unwilling to lend due to irregular payment schedules or regulatory constraints, such as financing for acquisitions.

The Changing Dynamics of the Indian Credit Market:
Given the shallow bond market, historically, banks have been the primary source of financing in India. However, over the past decade, banks have reduced their exposure to riskier credit segments, such as the industrial and manufacturing sectors, as well as to smaller enterprises. This shift is evident in the changing composition of banking assets under management (AUM) as follows:

1. Decline in lending to Industry / manufacturing sector from 45% to 28% and increase in personal loans from 18% to 31%.

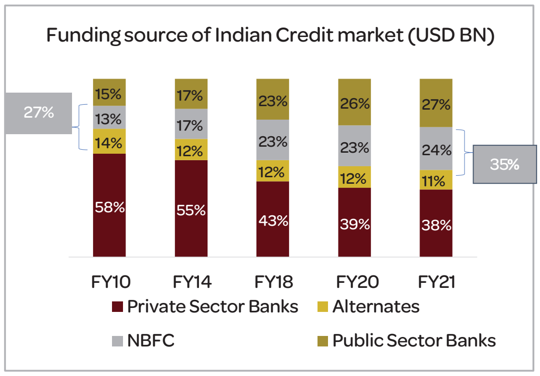
2. Moreover, the proportion of loans yielding returns of 13% or higher has reduced from 38% to 6% in this period.

To fill the void left by banks reduced risk appetite, NBFCs and Alternate credit providers emerged as potential solutions. **While NBFCs and Alternates now account for 35% of India's total credit market,** NBFCs have shifted their focus towards consumer finance and housing finance, leaving additional gaps in the market.

Couple of other pools of capital available to companies / promoters were Debt Mutual Funds (DMFs) and Market Linked Debentures (MLDs). With ALM mismatches in companies post IL&FS crisis led to credit defaults, the total DMFs AUM funds for credit risk category reduced from INR ~89,000 crs (Aug-18) to INR ~28,000 crs (FY21). Further with changes in tax laws / removal of indexation benefits, the net of tax return on these products for High-Networth Investors (HNIs) is not that attractive anymore, further reducing new issuances.

Given these market dynamics, Private Credit has witnessed significant growth and become increasingly relevant for both borrower companies and investors. **The Private Credit market in India is currently estimated ~ USD 7 billion per year and is expected to reach USD 20 billion by the end of the decade.** The current participants in this space include foreign banks, with ~ USD 4-5 billion invested in India, and foreign funds, which have similarly allocated USD 3-5 billion to Indian Private Credit. Additionally, Indian Private Credit Funds, primarily funded by Indian Family Offices and HNIs, currently account for USD 1.5-2 billion.

Looking ahead, we anticipate significant growth in Indian Private Credit Funds with foreign funds facing challenges conducting this business from their international offices. Also with prevailing forex dynamics, it becomes challenging to justify the risk-return balance when investing USD-denominated capital in INR-denominated fixed return credit instruments.



Source: RBI & ICRA Research

> *"The current participants in this space include foreign banks, with ~ USD 4-5 billion invested in India, and foreign funds, which have similarly allocated USD 3-5 billion to Indian Private Credit."*

Investor's Perspective:
Private Credit has gained significant popularity among investors as it presents new opportunities for credit investments with unique structures and returns that were previously inaccessible. **Particularly in times of market volatility, Private Credit Investments offer an appealing option to assume a certain level of risk and generate returns in the mid to late teens range through secured credit investments.**

While there are two approaches to achieving higher returns in Private Credit – taking on higher credit risk or implementing customized repayment structures – we at Kotak focus primarily on the latter. As a result, most of our transactions revolve around themes such as acquisition financing, promoter stake consolidation, or financing growth capital requirements, where traditional banks are unable to lend due to regulatory restrictions. By adhering to our strategy of financing growing businesses and prioritizing the higher credit quality segment, we believe we can provide our investors with optimal risk-weighted returns.

There are several factors that investors should take into account when considering Private Credit Investments or Funds. These include:

1. Evaluating the risk profile of the underlying investments
2. Assessing the ability to conduct thorough underwriting, due diligence, and ongoing monitoring of investments
3. Portfolio diversification
4. Average holding period of investments
5. Exit strategy for investments

Indian Family Offices and HNIs are increasingly recognizing Private Credit as a distinct asset class with a stable risk and return profile. During our roadshows, we see investors allocate anywhere from USD 1 to 15 million toward Private Credit Investments, and this trend is expected to continue.

Conclusion:
Private Credit has emerged as a dynamic and resilient segment within the financial industry, offering a range of benefits to both borrowers and investors. By providing flexible financing solutions, diversification opportunities, and efficient decision-making processes, **Private Credit has become an integral part of the lending landscape.**

Succession Planning: Wills and Trust

Mr. Tariq Aboobaker

Managing Director,
Amicorp Trustees (India) Pvt. Ltd

We are all mortal and one day shall depart from this world, empty-handed and leaving behind the entire estate we've built during our lifetime.

It is very pertinent to plan the manner in which the estate will be bequeathed to our loved ones after our lifetimes. Every family is unique and so are their requirements and needs for asset protection.

If you die intestate, which means without a succession plan or Will, your assets will be distributed to your legal heirs as per your religion. This distribution could be completely different from your wishes.

In a Hindu family, all assets will be distributed equally to all legal heirs (male or female), whereas in a Muslim family the assets would be distributed under the Sharia law, where the male members get two-thirds and the female members get one-third of the assets of the deceased.

The simplest way to plan for your succession is by drawing up a Will. A Will is a static document that comes into play when you die.

But a Will comes with its limitations. First, it is mandatory to probate your Will, especially in the formerly Presidency towns of Madras (now Chennai), Bombay (now Mumbai) and Calcutta (now Kolkata). Getting the probate, or getting the Will "proved" in court, can take over nine months to a year, or even more if someone contests the Will.

You can make multiple Wills during your lifetime; the last Will shall be considered as your final Will.
If you have global assets, it is advisable to make separate Wills for Indian and global assets; keeping in mind the law of the land where your foreign assets are. In this case, it is very important to provide a reference of your Indian Will in your global Will and vice versa for them to not override one other since the last Will is considered as your final Will.

> *"You can make multiple Wills during your lifetime; the last Will shall be considered as your final Will."*

Second, a Will may be contested. A Will once contested can take years to resolve and the ones who suffer during that time would be no one other than your intended beneficiaries.

Looking at the number of complications that could arise from a Will, a lot of families today prefer an alternative tool for their succession, which is a Family Trust. A Trust allows you to devise a succession plan that can be used during your lifetime as well us enables you to take decisions regarding the control and distributions of Trust Assets after your lifetime.

"A Will may be contested. A Will once contested can take years to resolve and the ones who suffer during that time would be no one other than your intended beneficiaries."

A Trust is a living body that runs in parallel with you for the benefit of yourself and your spouse during your lifetime and the benefit of your children after you.

In today's day and age, Trust structures are being expediently used by families as an instrument for succession. It also helps in securing the interest and income distribution to the beneficiaries of the trust. A Trust structure also helps in safeguarding the business as well as personal assets, helps in ring-fencing and consolidation of assets, etc. Trust structures also ensure the distribution of the assets in line with the desire of the settler.

For instance, you can decide the time and manner of the distribution, how the income and benefits arising from the Trust assets can be utilised and to which of the beneficiaries and in what percentage the assets will be distributed.

Creating a Private Trust is more beneficial than just writing a Will, but it depends on various factors i.e., your wishes, the age of the beneficiaries, family structure, various asset classes, assets spread across various jurisdictions, family members and their residential status, various businesses, number of beneficiaries, asset value, etc.

Currently, India does not have any inheritance tax or estate duties as they call it in the US and UK. For NRIs or families with beneficiaries living overseas, it is highly recommended to plan for succession through a Family Trust. With global tax, inheritance tax in the US and UK, the amount of time and effort required towards obtaining probate and many such factors, a Trust would be a better tool for planning your succession.

CSR Initiatives

True to the spirit of the Tata companies, Tata Capital believes that Corporate Sustainability is the cornerstone of business operations. Tata Capital's CSR approach is oriented towards a stakeholder-participation methodology where the well-being of the target groups, like the community and the environment, are integral to the long-term success of the company. To guide this journey, Tata Capital has defined its CSR vision and purpose which helps drive CSR implementation and achieve the desired results and impact.

Vision
To create shared value for the community at large in line with the Tata Group's core purpose.
Purpose
We endeavor to improve the lives of the community, especially the socially and economically underprivileged, by making a long term, measurable and positive impact through projects in the areas of Education, Skill Development & Entrepreneurship, Climate Action and Health.

Focus Areas

Education	Climate Action	Health	Skill Development & Entrepreneurship

*Number of beneficiaries for the year: 2,74,449

Initiatives and programs undertaken:

- The Cluster Development program aims to provide supplementary education to underprivileged students in Vikramgad and Sudhagad in Maharashtra.
- The Tata Capital Pankh Scholarship program supports meritorious underprivileged youth with scholarships and mentoring for higher education.
- ProAspire is a skilling initiative for underprivileged youth to be skilled in domain knowledge and life-skills and access placement opportunities in the BFSI sector.
- Dhan Gyan is a free e-learning course on financial literacy based on the National Financial Literacy Awareness Test (NFLAT) syllabus. It is available in English and Hindi. (www.dhangyan.com)
- Our health care initiatives, Aarogyatara and Cancer CELL, aim to provide access to quality preventive healthcare to fight against curable blindness and cancer.
- The JalAadhar project is an integrated watershed management program which aims to build water security through water and soil conservation and improved agricultural methods.
- The Green Switch Project aims to provide clean, renewable and reliable electricity to unlit homes in rural parts of India through a community partnership model.
- Project Ecosphere focuses to ensure availability of clean drinking water and water for irrigation with use of solar pumping system in the water stress areas of Mokhada and Sindhudurg, Maharashtra.
- Welfare activities for women:
  a) To better the working conditions of women in uniform, a project with Mumbai Police was carried out in the form of refurbishment of restrooms and washrooms for women at VIP Protection Cell – Fort, Azad Maidan and N M Joshi Marg Police Stations.
  b) Mobile Toilet Units provided at Kanpur and Thane.
  c) Online social, educational and entrepreneurial empowerment programs for our Army Veer Naris (War Widows), the spouses of our martyred and disabled serving soldiers and their dependents.

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