

DECODING THE BUDGET • THE ETHICAL HACKER

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INDIA Forbes

INVESTING

in

2017

LARGE-CAPS: BACK IN FAVOUR

ANALYSIS

HOW COMPANIES SHOULD DEAL WITH CASH

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Forbes^{INDIA}
Tablet Edition

The smart investor will need all the skills at his disposal to negotiate an uncertain 2017

When Choppy is the New Normal



Best,

SOURAV MAJUMDAR
Editor, *Forbes India*

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🐦 [@TheSouravM](https://twitter.com/TheSouravM)

Talk about investing these days and the first thing which comes up is the uncertain nature of the markets. Whether in corporate circles or in investor gatherings, the big question is how should one navigate the markets and choose between asset classes at a time when there's very little line of sight to the future. If one thought the sudden move by the government of demonetising currency notes of Rs 1,000 and Rs 500 late last year was a huge surprise (and shock for some), the new political order in the United States has enlarged this unfolding bundle of uncertainties. Add to that the impact of Brexit and domestic problems like mounting non-performing assets of state-run banks, and you have what promises to be a very, very challenging 2017.

Our 2017 Investment Special comes to you against this backdrop. How does an investor navigate these choppy waters? To be sure, there are no firm answers, only some pointers from the several experts we spoke to, who also weigh in with opinion pieces in this issue. As Samar Srivastava, who put this special package together with colleague Pravin Palande, writes in his overview, "...surviving volatility is as important as making the right investment." If you thought 2016 was volatile, there could be more surprises in store for you this year. One big theme which Srivastava and Palande found while talking to fund managers and investors is the gradual return of large-cap stocks to favour in the equities market. While we focussed on mid-caps

in a special issue on markets last year, the trend over the past few months seems to be one where such mid-caps are increasingly seen to be overvalued, and large-caps—stocks of large Indian companies—making a comeback on investors' radars.

Not just equities, this issue also delves into how one should navigate several other markets, notably real estate, commodities, gold and fixed income. When experts are closely watching not only the domestic economy but also the rumblings the world over, a smart investor would need all the skills at his disposal to make the right choices. We hope this issue helps in doing that.

While on the domestic economy, Budget 2017 presented by Finance Minister Arun Jaitley came as a welcome break from the choppiness all around. Post-demonetisation, Jaitley's budget was keenly watched since it was expected to give a big signal about how the Narendra Modi administration wanted to take the economy forward.

Budget 2017, by most accounts, turned out to be a good, solid document, minus any major negative surprises (that in itself cheered markets). It aimed at boosting infrastructure spending and pushing consumption, even while remaining committed to fiscal consolidation. Jaitley decided to give himself a wee bit of headroom to spend more, by fixing a 3.2 percent fiscal deficit target for FY18, promising to move to 3 percent the next fiscal. How the economy responds to the budget will be a fascinating study in itself.



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GROWTH SUSTAINED IN VOLA

NIFTY 50

8563.15



1.85

0.02%

Today
8585.80



Continued C...
Did Not Cor...
India, A Br...
Historic E...
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Forbes^{INDIA}
ON THE COVER

INVESTMENT SPECIAL

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On this page: Punit Paranjpe / AFP / Getty Images

With the budget proving to be a calming factor amid the uncertain economic and political environment globally, 2017 promises to be interesting for investors

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82: DANISH ISMAIL / REUTERS; 91: LUKE MACGREGOR / BLOOMBERG VIA GETTY IMAGES



L to R: Craig Wedge, Jean-Charles Boisset, Kapil Sekhri, Alessio Secci



TASTE OF THE WORLD

Fratelli's International Wine Showcase

29 Wines | 9 Wine Houses | 5 Countries

Fratelli Vineyards, one of India's leading producers of premium quality wines, showcased its expanded international wine portfolio recently at its exclusive "Taste of the World" event. Held at The Mansion, Hyatt Regency Delhi, Taste of the World 2017 saw 29 old and new world wines from Australia, France, Italy, Chile and California. Accompanying them was Fratelli's domestic range of SETTE, VITAE and M|S - Masters' Selection. The new international labels include JCB, numbered wines created by Jean-Charles Boisset, DeLoach from California, Cecchi from Italy, and Australia's boutique wines from Molly Cradle. Fratelli Vineyards also displayed its soon-to-be-launched SETTE Magnum bottle.

Jean-Charles Boisset, proprietor, Boisset Collection, also called the James Bond of the wine world, who attended the event said, "I am absolutely thrilled to be associated with Fratelli Vineyards and have JCB and DeLoach wines as a part of this prestigious Taste of the World event."

Guests enjoyed a live jazz performance as Hyatt Regency Delhi served a gourmet experience pairing fine wines with delectable food.



Mandira Lamba



Tristan and Isabelle Beau de Lomenie



Savneet and KD Anand



Divya and Aseem Chauhan



L to R: Jean-Charles Boisset, Puja Sekhri, Kapil Sekhri, Leigh Ann Reed



Gaurav Sekhri



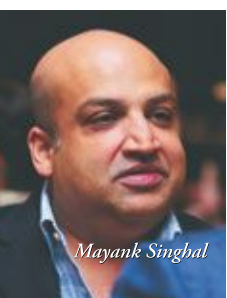
Live jazz livens up the evening



Puja Sekhri



The masterpiece goes big



Mayank Singhal



A splendid time for all



Readers Say

YOUNG AND FEARLESS

Refer to ‘Silver Linings’ (Issue dated February 17, 2017). The future of India lies in the hands of our young generation, who have the vision of making India number one in various fields. What’s praiseworthy about them is that they are above caste, community and religion—tools which have been used to create a divide among the citizens of the country. Swami Vivekananda had once said: “Nothing can be achieved without some kind of sacrifice. It is usually the young who have the strength of mind and will to be able to make sacrifices to achieve their goals.” The names featured on the Forbes India 30 Under 30 List prove that hard work and dedication give the best results.

Mahesh Kapasi, via email

TOUGH MEASURES

Refer to ‘Promises To Keep’ (Issue dated February 3, 2017). The income tax aspect has been well addressed by Finance Minister Arun Jaitley in his Union Budget. Besides, the issue of black money is also being tackled on a war footing, first with demonetisation and then with the big decisions announced in the budget.

M Kumar, via email

TRUE CHAMPION

Refer to ‘The Flip Turn’ (Issue dated February 17, 2017). Michael Phelps is the best swimmer with 28 Olympic medals to his credit of which all but five are gold. It was interesting to read how he is trying to translate his accomplishments into an everlasting brand.


Karan, on the web

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WHO DO CEOs TURN TO FOR ADVICE?
It is important to have people who can show you the mirror, and are not just mere yes men

HOW INDIA CAN SPEED UP INDIGENISATION IN DEFENCE MANUFACTURING
India is uniquely positioned to create a vibrant defence manufacturing ecosystem that can help us achieve self-reliance



SOCIAL MEDIA MARKETING WITHOUT SPENDING A RUPEE
Making your brand’s social media presence phenomenal is possible with innovations and ideas that are independent of money



8 WAYS TO BEAT PROCRASTINATION AT ITS OWN GAME
Instead of delaying the inevitable, follow a set schedule so that neither your work nor your enjoyment is affected

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Network **18**

A photograph of RBI Governor Urjit Patel, wearing a dark blue suit, a white shirt, and a blue patterned tie. He is wearing glasses and looking slightly to the right. The background is a wood-paneled wall. Another man in a suit is partially visible on the right, and the back of an older man's head is in the foreground.

Forbes ^{INDIA} LeaderBoard

APERTURE

Springing a Surprise

RBI Governor Urjit Patel readies himself to address the media after the bi-monthly monetary policy meeting on February 8 in Mumbai. The RBI went against expectations and kept the repo rate unchanged at 6.25 percent



VISA POWER

Indian IT in the Age of Trump

Indian IT majors always anticipated a clampdown on work visa programmes and were preparing to deal with it. But there will be a cost impact as well

FOR YEARS, INDIAN IT services companies have met the needs of their customers in the US, their biggest market, by sending software professionals from India to work at client sites, equipped with H-1B visas.

Now, the new US administration under President Donald Trump is planning to limit the scope of the H-1B programme, which, its opponents argue, displaces local workers with cheap foreign labour.

The latest proposals on H-1B visas are part of a bill introduced by Zoe Lofgren, a US Congresswoman from California, in the House of Representatives on January 24. Among other things, it proposes to more than double the minimum wage of H-1B visa holders to \$130,000 per annum. Another bill, by Representative Darrell Issa proposes to raise the minimum wage to \$100,000 a year.

Some analysts have tried to quantify the potential impact. Based on visa petitions filed by Infosys, India's second largest IT services company, average annual salary for H-1B visa holders was \$79,794 in FY16 and \$79,201 in FY17 and is projected at \$100,000 for FY18 and FY19, Mumbai brokerage



Congresswoman Zoe Lofgren has proposed a bill which aims to double the minimum wage of H-1B visa holders to \$130,000 per annum

Equirus said in a note.

At an average annual salary of \$100,000 per professional, Infosys's gross margins could be pared by 260 basis points from current levels in FY18, Equirus estimates. At \$130,000, gross margins may fall by as much as 700 basis points.

"The risks to the IT services sector include an increase in cost per professional, more local hiring and a disruption in service continuity, which may have a negative impact on the profitability of companies that are visa-reliant," DD Mishra, research director at technology consultancy Gartner, tells *Forbes India*.

The National Association of Software and Services Companies (Nasscom), India's IT industry lobby, said in a statement on

January 31 that "the Lofgren bill contains provisions that may prove challenging for the Indian IT sector and will also leave loopholes that will nullify the objective of saving American jobs". Nasscom aims to show that the Indian IT sector was a "net creator" of local jobs in the US, the lobby added.

However, talks of placing restrictions on the H-1B scheme aren't new and India's IT sector may even be prepared for it. In the past, the Indian IT services sector was considerably dependent on these visas,

Restrictions on H-1B visas may force Indian IT companies to hire more local talent

as its outsourcing model was based on cost savings for the clients by shipping as much work to India as possible and doing the rest at the client sites by sending staff on these visas. Today, this model is fast losing ground, and IT services companies are at various levels of preparedness for the day when a company pitching just cost savings to its clients, without offering ideas and technology to boost business, will become irrelevant.

Abidali Neemuchwala, CEO of Wipro, India's third biggest software services company, pointed out that "over time, Wipro has positioned itself comfortably in a business model where we'll be able to operate with a lower number of [H-1B] visas".

That is also the case with Infosys and Tata Consultancy Services, India's biggest IT services player.

"A potential offset, however, could be the accelerated use of technology-based solutions, such as robotic process automation and the 'disintermediation' of human labour," says Gartner's Mishra. That may, very well, be the future if H-1B visas are restricted.

— HARICHANDAN ARAKALI

18.4%The stake held by
Cyrus Mistry's
family in Tata Sons

LeaderBoard

TATA SONS vs CYRUS MISTRY

What next for Cyrus Mistry?

While committed to taking his legal battle against Tata Sons to its logical conclusion, Mistry is planning to start his own new venture

THE PITCHED CORPORATE battle that began on October 24, 2016, with Cyrus Mistry being sacked as chairman of Tata Sons, continued on February 6, 2017 with his removal as a director on the board of the holding company of the conglomerate, in which his family holds an 18.4 percent stake.

While Tata Sons may have been successful in removing all traces of Mistry from its headquarters at Bombay House, it may still be premature for them to claim victory, since a long-drawn legal battle is all but a given.

Mistry, 48, and his family's investment firms that have moved court against Tata Sons, its directors, the Tata Trusts and their nominees, fought tooth and nail to obtain a stay on the extraordinary general meeting (EGM) of Tata Sons' shareholders where a resolution seeking his removal was to be put to vote. The National Company Law Tribunal (NCLT), which is hearing the main petition alleging oppression of shareholders and mismanagement, refused to grant the stay. The petitioners then moved the National Company Law Appellate



Ratan Tata arrives for the Tata Sons EGM at Bombay House; the meeting removed Cyrus Mistry as a member of the board

Tribunal (NCLAT) in New Delhi, but to no avail.

Consequently, the EGM went ahead on February 6 and, as expected, the shareholders of Tata Sons passed a resolution to remove Mistry as a director of the company.

Sources close to the developments at Bombay House say that neither side is willing to let up. Whichever party loses a case at any court

Neither side is willing to let up. Whichever party loses a case will invariably appeal the decision in a higher court

of law will invariably appeal the decision in a higher court, they say, till all legal options are exhausted by either side.

It started with the Mistry family firms—Cyrus Investments and Sterling Investment—challenging NCLT's refusal to grant a stay on the EGM, and their unwillingness to take an immediate decision on the maintainability of their petition at the NCLAT.

Tata Sons has claimed that Mistry's petition is not maintainable since his family firms hold only 2.17 percent of the issued share capital of the company (including ordinary and preference shares).

A petition filed under Section 241 and 242 of the Companies Act of

2013 is not maintainable if the petitioners hold less than a tenth of the issued share capital of the company, or represent less than a tenth of the total number of shareowner members. But in the interest of hearing a case, a court of law can always waive this condition.

While the NCLAT has refused to intervene in the matter, it did provide some relief to Mistry by observing that when his case comes up for final hearing at the NCLT, the court should decide on the issues of maintainability and waiver first, and only then decide on the case based on merit.

The NCLAT further stated that if the tribunal's Mumbai bench ruled in favour of Mistry, it could always issue an order to restore him as a director of Tata Sons.

Meanwhile, sources close to Mistry say he is chalking out his next professional pursuit.

"When Cyrus had left the Shapoorji Pallonji Group to take over as Tata Sons chairman, he had handed over the day-to-day management of the group to his brother, Shapoor," says the source.

"Though he is back in the family business, he is clear that Shapoor should continue running the business. While he will support his brother in the management of the group, he is also planning to start a new venture of his own."

—AVEEK DATTA

25.8%

of Walmart's revenue was from foreign operations for the year ended June 2016, according to Deloitte. The US retailer has a footprint in 30 countries



LeaderBoard

GLOBAL MERCHANTS

The Goliaths of the Retail World

Deloitte's Global Powers of Retailing report for 2017 identifies the 250 largest retailers by revenue around the world. No Indian company makes the cut but an e-tailer has vaulted into the top 10

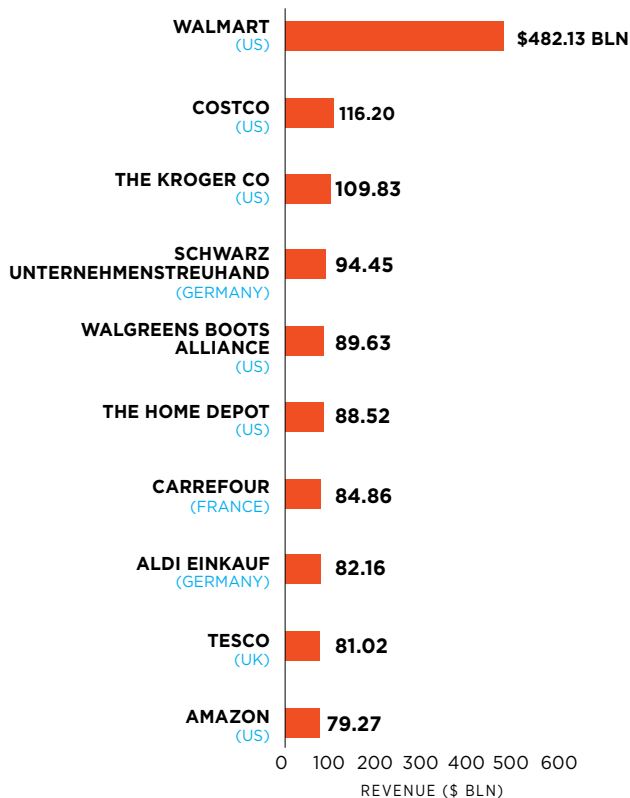
EARNINGS FALL

AGGREGATE REVENUE OF THE TOP 250 RETAILERS, AT \$4.31 TRILLION, IS DOWN FROM \$4.48 TRILLION LAST YEAR ON "CONTINUED DEVALUATION OF MOST CURRENCIES VIS-À-VIS THE DOLLAR".

THE LEADER

WALMART LEADS THE PACK BY A WIDE MARGIN, BUT AMAZON IS THE BIGGEST E-TAILER AND ENTERS THE LIST OF TOP 10 RETAILERS THIS YEAR, JUMPING TWO PLACES FROM THE PREVIOUS RANKING.

THE TOP DECK



TOP FIVE BY ECOMMERCE REVENUES

Three of the top five e-tailers are brick-and-mortar majors

AMAZON (OVERALL RANK: 10)

JD.COM (36)

APPLE (33)

WALMART (1)

SUNING COMMERCE (46)

READING THE FINE PRINT

- Between 2010 and 2015, revenues of the top 250 retailers grew at a CAGR of 5 percent.
- The average revenue of the companies on the list is \$17.2 billion.
- Their composite net profit margin is 3 percent.
- They clocked a composite return on assets of 4.6 percent.
- 22.8 percent of the overall revenue is from foreign operations.
- Minimum revenue to make it to the list is \$3.5 billion, down from \$3.65 billion last year.

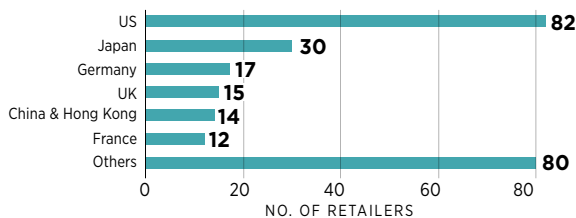
*All data is for fiscal years ended through June 2016

Source: Deloitte Global Powers of Retailing 2017

Compiled by N Madhavan

DISTRIBUTION BY COUNTRY

A bulk of the 250 retailers are from developed markets



INFOGRAPHICS: SAMEER PAWAR; TOP: MIKE BLAKE / REUTERS

7,500

Approximate number of companies in India, which only provide fake employment and educational certificates, according to a report by First Advantage



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VERIFYING INFORMATION

The Fact Checkers

With a proprietary platform, AuthBridge is carving out a niche in the background screening business



Ajay Trehan, founder and CEO of AuthBridge

WHEN AJAY TREHAN WAS running a business outsourcing company based in Gurugram in 2005, his overseas clients would often ask him if he'd done a background check on his employees. He hadn't, and neither had most others. But the entrepreneur realised the business opportunity he could tap into.

More than a decade later, AuthBridge, the background screening company Trehan, 45, set up in 2005, is on its way to becoming one of

the largest homegrown players in an industry that is dominated by a few large players, including global majors such as First Advantage, and KMPG.

A wide range of businesses—from private corporations to banks disbursing loans—are realising the need for background checks. It is not uncommon for prospective employees to include false information on their resumes; loan applicants, too, create fake identities.

AuthBridge estimates that although the

market is small, at Rs 250 crore (there are no independent industry numbers available), the widespread issuance of Aadhaar cards, and the willingness of companies to share employee data, are making things easier.

AuthBridge, like other players in the industry, can access Aadhaar-related information to verify a person's identity (the person has to sign a consent form for AuthBridge to access the data), with their photograph, date of birth, and father's name. Such information is usually requested by banks to issue loans, and large-scale employers such as pizza delivery services.

Accessing the Aadhaar database is a service AuthBridge started in May 2016. "In the last six months, since AuthBridge rolled out this service, we have seen inquiries rise from zero to 70,000 a month," says Trehan, founder and CEO.

But verifying employment claims is as important as verifying a person's identity. When AuthBridge started functioning in 2005, its employees would call up companies and educational institutes mentioned

by the people who they were checking up on, and ask for information. It was an inefficient and time-consuming process, prone to mistakes.

AuthBridge decided to automate this process, and rolled out WorkAttest in January 2016, a proprietary platform where employers voluntarily share (after signing an agreement with AuthBridge) information about their employees.

Fifteen companies, including US-based HR consulting firm ManpowerGroup, and Indian insurance firms such as ICICI Prudential Life Insurance, DHFL Pramerica, and Max Life Insurance, have agreed to share their employee data; discussions are on with 40 more companies. Firms agree to share this information with the long-term prospect of gaining access to the same database for investigating potential hires in future. Once a critical mass of companies come on board, AuthBridge plans to monetise the WorkAttest platform by allowing companies to access the database themselves.

Trehan is reticent about discussing numbers. All he says is that his company has a 25 percent share of the market (which amounts to Rs 62.5 crore) with a high rate of profitability. "We hope to maintain the 60 percent growth rate we had last year for each of the next five years," he says.

—SAMAR SRIVASTAVA

Fifteen companies have agreed to share their employee data on WorkAttest

//// BUDGET 2017 ///

NET GAINS



The government's approach of enabling growth, with one eye on fiscal consolidation, has been met with near-universal positivity by the country. From India Inc to new (and small) entrepreneurs to the rural majority, there have been few reasons to complain post Budget 2017



BUDGETING CAUTION

Will a prudent government and a hawkish central bank bode well for the Indian economy?

BY N MADHAVAN

The Reserve Bank of India (RBI) under Governor Urjit Patel has made it a practice to surprise the market with its monetary policy pronouncements. In October 2016, when not many had anticipated a rate cut, the RBI delivered a 25 basis point reduction in the repo rate. It maintained status quo in the December policy meeting even though a 25 basis point cut was deemed certain. Again in February 2017, it went against the general expectation of a 25 basis point cut by holding the repo rate at 6.25 percent. Patel blamed the uncertain conditions for the abundant caution that the Monetary Policy Committee (MPC) adopted to keep the rate on hold. The MPC wanted to assess the transitory effects of demonetisation on inflation and the output gap. And now that it has changed its policy stance from ‘accommodative’ to ‘neutral’, the likelihood of further rate cuts this year is uncertain.

This policy move by the RBI should disappoint the central government. It comes against the backdrop of Budget 2017 through which the government

struck a fine balance between the need for growth and fiscal prudence.

Finance Minister (FM) Arun Jaitley’s fourth budget had to inevitably address the need for a stronger impetus to growth. Demonetisation and the indifferently executed remonetisation had hit consumption, a key driver of growth, in a big way. With exports and private investment already languishing, growth began to slide despite the government’s attempts to pump-prime the economy through a large dose of public investment: The Economic Survey expects growth to be anywhere between 6.5 percent and 6.75 percent of GDP in 2016-17; this is against 7.6 percent in 2015-16.

To kick-start consumption, Jaitley judiciously chose to leave more money in the hands of the people. He could have embraced Universal Basic Income (UBI)—giving money directly to the people, a concept that was gaining traction in the run-up to the budget. It would have been a political masterstroke, but the government held back as UBI could not coexist with the various subsidies and

the move needed to be well thought through. Instead he chose to cut income tax rates and made the highest ever allocation towards the rural job guarantee scheme (MNREGA). This, he hopes, will drive consumption which is critical to absorb the excess capacity that the industry is grappling with. The private sector will not begin to invest

Another interesting aspect of the budget is the quality of the expenditure. “The total expenditure growth projected in FY18 was quite moderate at 7 percent year-on-year and skewed more towards capital spend than revenue spend... this skew reflects that the government refrained from turning overtly

ARUN JAITLEY JUDICIOUSLY CHOSE TO LEAVE MORE MONEY IN THE HANDS OF THE PEOPLE TO KICK-START CONSUMPTION

unless this capacity is absorbed, and without private sector investment kicking in, economic growth will not accelerate.

The FM also continued with the thrust on public investment by increasing allocation to infrastructure—roads, railways, airports and telecom. Affordable housing was given infrastructure status. He also increased rural spend by 24 percent. These measures should help in creating jobs which, in turn, will drive up consumption.

populist in this budget despite the upcoming assembly elections,” said Citi in its report. In fact, as a percentage of GDP, overall expenditure has declined by 0.7 percent.

Jaitley has also ensured that he stayed on the path of fiscal consolidation. While he is set to achieve the fiscal deficit target of 3.5 percent in FY17, he chose to slow down on his journey to 3 percent in a bid to boost public spending. By setting fiscal deficit targets of 3.2 percent of GDP in 2017-18 and 3 percent in 2018-19,



FM Arun Jaitley astutely released funds for infrastructure spending while staying on the path of fiscal consolidation

he has astutely released funds for infrastructure spending. What makes this effort even more credible are the revenue assumptions. “Overall, revenue targets look largely credible to us. We think any downside risk to the disinvestment target could be met by somewhat higher tax revenue growth arising from a potential widening of the tax net following demonetisation,” said Goldman Sachs in its latest report on Budget 2017.

The government has also done its bit to soften interest rates by limiting its market borrowing to fund fiscal deficit. According to Citi, in 2016-17, the government resorted to market borrowing to fund 68 percent of the deficit against the budgeted 82 percent. In FY18, this will be even lower at 64 percent.

Simply put, this would mean lower interest rates in the market for corporates.

Post-demonetisation, the government has used the budget to continue with its move to expand the formal economy. It has capped cash transactions and brought in measures to streamline political funding. These attempts plus the imminent roll-out of the Goods and Services Tax (GST) should expand the formal economy, bringing in more revenue to the government and, in the long run, leading to lower tax rates.

The shortcomings that experts point to in Budget 2017 include the lack of adequate thrust to solve the banking sector’s non-performing assets (NPAs) problem and the slower pace of recapitalising public sector banks. Jaitley could

have tried out the ‘bad banks’ option to tackle the NPA issue, as suggested by the Economic Survey. By transferring their NPAs to a ‘bad bank’, the banks—after adequate recapitalisation—would be free to continue their operations. After all, one of the reasons why private sector investment is sluggish is due to poor lending support from the banks. Experts also say that the budget could have done more to create jobs. The FM’s notion of spending on infrastructure and reducing the corporate tax rate for medium and small enterprises by 5 percentage points on the assumption that this will create jobs is just not enough, they say.

However, the negatives are very few and it is not surprising that the budget has been well received. “This was a very good

growth-oriented budget. The measures announced by the finance minister, including the lowering of income tax, will help boost consumption. With remonetisation working well and GST on the anvil, private sector investment should also revive shortly,” Adi Godrej, chairman, Godrej Group, told *Forbes India* after the budget.

Jaitley, of course, would have been happier if the RBI had cut the repo rate in February. Then the economy would have been better primed for faster growth. But he can hardly complain. Like how he chose prudence over profligacy while drafting the budget, the central bank has chosen caution over aggression. Higher inflation, after all, negates the benefits of a faster pace of economic growth. **F**

THE BUDGET INDICATES POLICY-BASED GOVERNANCE

Spending money on building infrastructure to create jobs, and not handing out doles, marks the new normal

Budget 2017 was an outstanding statement of the Narendra Modi-led central government's intent on where it wants to take the Indian economy.

Through the provisions announced in the budget, finance minister Arun Jaitley effectively re-emphasised what has become the new normal for the Indian economy, which is now being based on policies rather than on discretion.

One of the key highlights of the budget was the absence of any kind of populism, which could have been a temptation easy to succumb to, given that elections are underway in various states and more are scheduled for later this year.

The government has rightly decided to base its budgetary provisions on fiscal prudence and Jaitley's articulation of the government's intention to stick to a fiscal deficit target of 3.2 percent in 2017-18 and 3 percent in 2018-19 was encouraging.

Votes notwithstanding, the government judiciously ensured that it didn't go overboard in spending, and avoided incurring any expenditure that could

have had a major impact on the country's finances.

Rather than giving out doles, the government directed its expenditure programme towards overheads that will help create jobs and boost overall economic growth.

The significant expenditure of Rs 3.96 lakh crore towards creating physical and digital infrastructure—both in urban and rural areas—will definitely give a boost to core industry, which in turn will help generate employment and boost the country's Gross Domestic Product (GDP).

The total budgetary allocation of Rs 1.87 lakh crore for the rural, agricultural and allied sectors towards initiatives including affordable housing, sanitation, electrification and skill development will certainly help uplift the quality of life of people in rural areas, who are valuable consumers for all kinds of

products and services.

The government's public spending programme, proposals to invest in new infrastructure, focus on agriculture, and measures to put more money in the hands of the people by steps such as lowering the tax rate for individuals whose salaries fall in the lowest income slab will surely stimulate additional demand and boost consumer spending. This will help the country recover faster from the effects of demonetisation, and push the progress of remonetisation along expected lines.

Access to proper housing at an affordable cost is a challenge that many Indians face. According to infrastructure status to affordable housing will be a shot in the arm for residential projects as this will give builders access to institutional—including overseas—and low-cost sources of funding.

The quantum and quality of spending that the government intends to undertake will also boost sentiments for



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PUTTING MORE MONEY IN THE HANDS OF THE PEOPLE WILL HELP INDIA RECOVER FASTER FROM THE EFFECTS OF DEMONETISATION



Proposals to promote digital transactions will help make the system more transparent

private sector enterprises. Typically, there is a lag between the announcement of policy measures and their impact. Consequently, one can hope that private sector investments in capital expenditure will pick up over the next couple of quarters, based on the stimulus provided by the government.

It was also heartening to note that the government intends to continue with its agenda of making it easy to do business in India by cutting red tape and bureaucracy.

Announcing the intention to abolish the Foreign Investment Promotion Board (FIPB)

ONE HOPES THAT PRIVATE SECTOR INVESTMENTS WILL PICK UP OVER THE NEXT FEW QUARTERS BASED ON THE BUDGET'S STIMULUS

was a step in that direction. While most foreign direct investment (FDI) proposals don't need approval from the FIPB any longer, the government is clear that even those that do should be ratified by the administrative ministries entrusted with overseeing the respective economic sectors to which such FDI proposals pertain, and not the finance ministry.

This should certainly help attract further foreign capital into India.

The finance minister's proposal to confiscate the assets of economic offenders who flee the country will also prove to be a deterrent against such lawbreakers. Compelling them to remain within India's jurisdiction will help financial institutions that have

lent to such individuals, or their companies, recover their dues.

Budget 2017 was also a reiteration of the government's intention to move towards establishing a digital and more cashless economy, which will lead to a cleaner society and increased formalisation of the economy.

Measures like imposing restrictions on cash transactions beyond a threshold and various initiatives to promote digital transactions will help make the system more transparent, to the benefit of the common citizens of the country. ^P

(As told to Aveek Datta)

STEADY AS SHE GOES: FM KEEPS SHIP ON COURSE

Budget delivers progressive changes without upsetting the cart and reinforces Centre's commitment to previous policy decisions

In the backdrop of the unprecedented effort to curb the size of the black economy in India three months ago, the Union Budget delivered a credible holding operation. With the government and private sectors still coping with the change, the budget reinforced the government's commitment to its previous policy decisions while avoiding sudden changes.

On the foreign investments front, the finance minister (FM) announced the scrapping of the Foreign Investment Promotion Board, which is likely to help liberalise foreign inflows into India. Secondly, the FM decided to exempt the Foreign Portfolio Investor Category I & II from indirect transfer provisions. Furthermore, he clarified that the indirect transfer provision shall not apply in case of redemption of shares or interests outside India as a result of redemption or sale of investment in India, which is taxable in India. Unlike the Budget of FY13, which sparked the General Anti-Avoidance Rule controversy, the current budget steered clear of announcing retrograde anti-capital market measures.

On the structural change



Customers exchange demonetised currency at an India Post office in New Delhi. The government's forcible move to rapidly formalise the economy will lead to a shrinking of the informal sector

front, the budget reinforced the government's resolve to crack down on the black economy with two policy measures. First, it decided to accept the recommendation made by the Special Investigation Team on black money that no transaction above Rs 3 lakh should be permitted in cash. Second, the budget made the point that the government is considering a new law to confiscate the domestic assets of economic offenders who flee the country until they submit to the jurisdiction of

the appropriate legal forum. Such a law should give teeth to the Bankruptcy Code that was approved by Parliament last year.

Another progressive change that the Budget administered was that it brought down the Capital Gains Tax (CGT) period on immovable property from three to two years, and allowed sellers to invest the sale proceeds in financial assets whilst maintaining CGT exemption.

Historically, proceeds from selling property had to be re-invested in property



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Group CEO, Ambit Holdings

to avail CGT exemption. This move, too, is likely to solve India's problem of physical savings being too high and financial savings being too low.

Even on the fiscal deficit front, given the pressures on growth that are likely

enterprises that have a turnover of less than Rs 50 crore in 2015-16 is a very smart way of keeping last year's promise for 96 percent of corporate tax payers, and yet saving Rs 80,000 crore in tax loss that the government would have

registered accounts of political parties, effectively means accountability without disclosing the identity of the donor, other than to the regulator.

However, it is worth highlighting three areas where the budget could have delivered with greater force to make it an ideal one.

First, while GDP growth is likely to recover in FY18, it will be lower than what it would have been if the government was not forcing the economy to formalise so rapidly. The increased focus on tax compliance is likely to mean that the non-tax paying informal sector in India will shrink fast. This, in turn, will entail a degree

They are struggling with a corporate asset quality cycle that is yet to bottom out. Given that the government's hands are tied with respect to funding recapitalisation, the announcement of a bad bank or banking sector reforms could have helped resolve the situation.

Thirdly, even as the FM highlights his intention to implement the Goods and Services Tax (GST) by July 1, the government did not tweak its indirect tax structure to prepare for GST implementation. Furthermore, there was no mention of the GST implementation date in the budget speech. A mention of this date



to come to the fore as the year progresses, the government's decision to delay hitting the 3 percent of GDP fiscal deficit ratio is justifiable. The fact that they decided to withhold implementation of Universal Basic Income deserves to be commended. While the concept is perfect in theory, withholding its implementation makes a great deal of sense, given that phasing out benefits and subsidies in India is fraught with political risks.

Reduction of corporate tax to 25 percent for

incurred if the tax rate was reduced for all corporate tax payers. Unfortunately, the effect of long-term capital gains where Securities Transaction Tax is not paid at 'the time' of acquisition will be harsh on promoters and employee stock option plan holders.

For the first time a government has addressed one of the root causes of black money, i.e. political funding. The mechanism of bearer bonds to be issued by the Reserve Bank of India (RBI), which can be encashed only in the

of demand destruction, because the informal sector accounts for more than 40 percent of India's GDP and employs close to 75 percent of the labour force. The government could have used the budget to make analysts revisit their GDP growth estimates for FY18. Given the importance of the result initiated by the government, this could have been clearly justified.

Secondly, the Indian banking system, which is the backbone of the economy, is reeling under asset quality stress.

would have helped create credibility around the government's resolve.

Thus, against the backdrop of the uncertainty and potentially difficult global environment, the helmsman of the Indian ship did a credible job to ensure that economy stays steady. Whilst the budget did not deliver a clear focus on boosting growth potential over the next 12 months, it steered clear of announcing retrograde anti-rich measures and created a much required sense of policy stability. ^F

THE GOVERNMENT DID NOT TWEAK ITS INDIRECT TAX STRUCTURE TO PREPARE FOR IMPLEMENTATION OF THE GST

IT'S THE BUDGET OF A PRUDENT GOVERNMENT

Straddling political and economic compulsions, Jaitley hasn't done anything path-breaking, but has ensured that there is something for every sector

Even a staunch critic would not dispute that the terrain Finance Minister Arun Jaitley was asked to walk on was difficult. Political compulsions hung on him like the sword of Damocles: Several states were going to polls and the government was into the second half of its tenure. Add to that the possibility of rising Fed rates, uncertainty around commodity prices, especially that of crude oil, and increasing threats of protectionism in various parts of the world. Against such a backdrop, Budget 2017 did a good job of identifying the pain points of the Indian economy: Farm and rural sectors that comprise the youth, poor and the underprivileged, infrastructure and financial sectors, digital economy, governance and tax administration.

The targeted agricultural credit in FY17-18, at an unprecedented level, should augur well for the farm sector. But experience has shown that public sector banks are invariably drawn to such programmes; we hope the government has been mindful of the stress that the sector is passing through.

The proposal to integrate fruit and vegetable growers with agro-processing units and work on a model law on contract farming shows that the government acknowledges the need of the hour. In the rural sector, the emphasis on a focussed micro plan for sustainable livelihood for every deprived household shows the government recognising what has been good for the economy. Increased allocation towards the Pradhan Mantri Gram Sadak Yojana and the

welcome. Compared to the hackneyed plans of opening more schools, this should produce better results. Plans to set up skill centres that will also impart training in foreign languages will help the youth seek jobs outside the country.

India, with its vast expanse of coastlines, mountains and diversity of culture could be a tourism paradise. This, in turn, could be an employment generator. Emphasis on the sector to leverage its multiplier effect shows

PLANS TO SET UP SKILL CENTRES WILL HELP THE YOUTH SEEK JOBS OUTSIDE THE COUNTRY

Pradhan Mantri Awas Yojana-Gramin as well as plans to impart new skills to the rural people—mason training to 0.5 million heads by 2022—reflect the government's ambition to develop the rural economy with the construction of roads and houses.

The plan to leverage information, communication and technology-enabled learning platforms to spread quality education is

some astute thinking on the part of the budget framers.

According infrastructure status to housing was a long-standing demand and the government has made a beginning with the affordable housing sector. The housing sector provides employment to construction labour; hence, apart from the human aspect, the economic aspect of this plan does not go unnoticed. The emphasis on the use of generic



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medicines is in line with the global trend. We will see how the plan to attract investments in the medical devices sector shapes up with the proposed new regulations, which will be 'internationally harmonised'. Labour laws have been controversial with critics pointing out that they make doing business tough. Hence, the plan to undertake legislative reforms to simplify, rationalise and amalgamate the existing plethora of labour laws into four essential codes is welcome.

A notable feature of this budget, arising from the merger of the rail and general budget, is a more holistic approach in catering to the infrastructure sector. For instance, the plan for railways to implement end-to-end integrated transport solution for select commodities through partnership with logistics players, who would provide both front- and back-end connectivity. Rolling stocks and practices will be customised to transport perishable goods, especially agricultural products.

The road sector, too, has seen a phenomenal increase in budgetary allocation. The condition of most of the airports in the country is poor. It is refreshing to see that the government has thought of monetising real estate held by the Airport Authority of India to fund airport upgradation.

Overdependence on microwave connectivity as against on optical fibre network was a problem.



Increased allocation towards the Pradhan Mantri Gram Sadak Yojana reflects the government's ambition to develop the rural economy

Increased allocation to the BharatNet Project to reach optical fibre connection to villages was a right move. All-time high allocation for schemes such as M-SIPS and EDF to cater to electronic manufacturing will reassure global players and mobile manufacturers who are keen to set up production facilities in India.

The move to abolish the FIPB (Foreign Investment Promotion Board) from 2017-18 represents a bold move. Dispute resolution in PPP, infrastructure-related construction contracts and public utility contracts was an age-old sore point. It is good that it has been decided to resolve such disputes through an existing legislation,

namely the Arbitration and Conciliation Act, 1996.

The idea to merge some of the major central public sector enterprises, notably the oil sector players, to create behemoths capable of competing with some national and international players is a reflection of the principle of 'minimum government, maximum governance'. Relieving banks of their stressed legacy accounts is sought to be achieved through legislative measures; this explains the lesser allocation to the banking sector on this count compared to the magnitude of the stressed accounts.

Digitalisation of the economy is essential to eradicate corruption and black money. A slew

of measures, including amendments to the tax law on disallowance of cash payments, penalising major payments in cash and receipt and payment of donations have been adopted to push towards non-cash dealings. Demonetisation accentuated the need for a big push towards digital.

A new feature is the consolidated outcome budget covering all ministries and departments with the aim to improve accountability of government expenditure. On the taxation front, the budget banks on GST being rolled out by the desired date. In direct taxes, amendments are more in the nature of twists and turns designed to close loopholes. Another way to see this is that our tax laws have achieved some degree of certainty and continuity. Demonetisation affected the lower strata of society more and tweaking in personal taxes is aimed at embalming that strata.

The budget is seeking to achieve most of the growth through the multiplier effect of investments in the construction sector. Perhaps not much can be showcased on the fronts of tax reforms, effects of demonetisation, relieving stress on corporates and the banks. The budget does not have a major leap for any specific sector, but there is a bit for every sector. Perhaps, that was all that could be expected in the current political and economic milieu. **F**

FORTIFYING INDIA VIA BHARAT

The overarching theme of the government's policies, including measures announced in the Union Budget, is of revitalising rural India

Focusing on little steps that add up to a growth marathon is a sensible strategy. Given that the hinterland has borne the brunt of a sluggish economy and two years of drought, attempts to rekindle it are empathetic. Also, given the potential headwinds—both exogenous and endogenous—this was a time for prudence. In any case, when the political cycle begins again later in the next fiscal, populism could be tough to resist.

Playing to the gallery was easier

The government's emphasis is on bringing up the sidelined India, the one that lives in villages and has few options beyond the farm, and the one that lives in urban pockets but is condemned to penury. But equally, there is a focus on infrastructure and fostering transparency through leveraging technology, all with an eye on enhancing the economy's long-term growth potential.

Spending on rural areas and poverty alleviation has shot up, with higher allocation to schemes such as MNREGA and Pradhan

Mantri Awas Yojana. Agriculture has got primacy, with measures for micro-irrigation, dairy farming, credit availability and farm insurance coverage, even as rural connectivity and liveability are expected to improve with steps to boost infrastructure, housing, sanitation and electrification.

critical to expansion of the digital economy. Allocation under the BharatNet programme has been budgeted at Rs 10,000 crore, a near-two-thirds rise over the previous year.

Given all this, the fiscal deficit target has slipped a notch to 3.2 percent of the GDP. The intention is to catch up in the next couple of years, despite likely hiccups in divestment and the Goods and Services Tax.

With the government's net market borrowings restricted to Rs 3.48 lakh crore for the next fiscal, lower than the previous Rs 4.25 lakh crore, there is fiscal rectitude. Subsidies have been kept under a

BUT EQUALLY, THERE IS A FOCUS ON INFRASTRUCTURE AND FOSTERING TRANSPARENCY THROUGH LEVERAGING TECHNOLOGY

Infrastructure allocation is up by nearly 10 percent, including a 24 percent jump for highways and a 22 percent jump for railways. Rail safety, too, has been given due importance with a Rs 1 lakh crore safety fund to improve train speeds and carrying capacity. For urban India, there is an 80 percent increase in allocation towards metro rail, with a new policy framework to encourage private sector investments.

Investments in building a strong digital infrastructure are set to improve rural coverage,

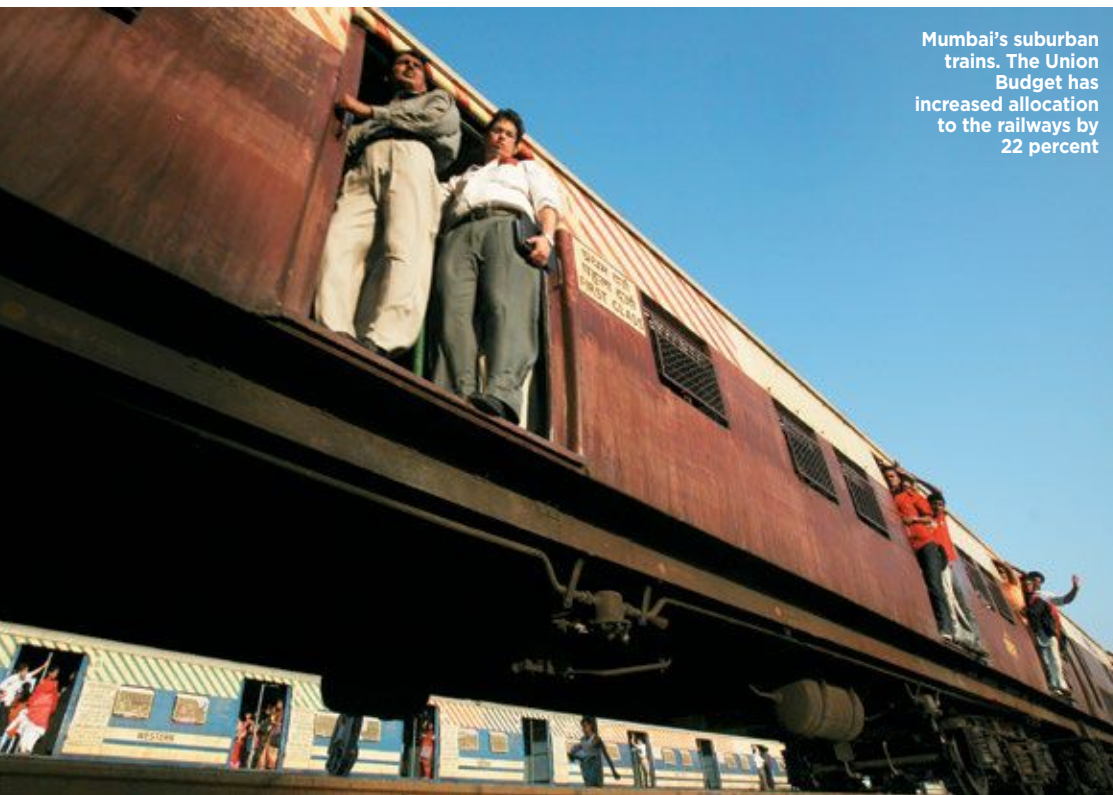
tight leash at 1.4 percent of the GDP, 10 basis points lower than the current fiscal. We estimate that the provision for fertiliser and petroleum subsidy would ensure there are no carry-forwards to the next year and all pending bills are paid out.

This will result in lower interest rates, and improve monetary and fiscal policy coordination.

The last piece of the jigsaw is improving India's tax-to-GDP ratio. The government's intention to use data analytics to mine demonetisation deposits,



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MD and CEO, Crisil



Mumbai's suburban trains. The Union Budget has increased allocation to the railways by 22 percent

and the various measures to digitise the economy, will leave unprecedented transaction trails and improve tax compliance.

Growth next fiscal

In fiscal 2018, we expect a pick-up in GDP growth to 7.4 percent, compared with the expected 6.9 percent in fiscal 2017. The investment cycle is expected to remain weak; consumption will likely pick up moderately despite a cut in tax rates and softer interest rates.

Agriculture-related sectors will benefit from rural spend, and rising rural incomes will benefit makers of consumer goods, two-wheelers and tractors.

Demand has been a drag for some time, and demonetisation has affected this. But the thrust to

rural consumption will provide a kicker, given that it contributes 55 percent to total consumption, and rural GDP is 47 percent of India's GDP.

The focus on transport infrastructure should help construction, engineering, and cement and steel players, by cutting logistics costs and improving efficiencies. These players will also benefit from the push to affordable housing and irrigation.

Technology and telecom players will benefit from the digital push and programmes like BharatNet.

The real estate sector should be abuzz, thanks to easier funding for affordable housing, tax relief for unsold inventory, an expected spurt in

demand from a softening rate environment, and deferment of payment of capital gains in case of joint development agreements. Infrastructure status will facilitate entry of long-only funds.

The reduction in corporate tax by 5 percent will leave more cash in the hands of micro, small and medium enterprises (MSMEs), which are the heart and soul of job creation and industrial enterprise. The emphasis on improving education and skill levels should improve availability and quality of labour, again underscoring long-termism.

As for the debt market, concessional tax rates for external commercial borrowings and capital gains benefits


for masala bonds should support fund raising.

Challenges remain

A big miss is the lack of a road map to resolve the banking sector asset quality stress and capital woes. At Rs 10,000 crore, the capital allocated to public sector banks is woefully short, and will impact their ability to finance growth. Crisil estimates these banks will need Rs 43 lakh crore up to 2020, as a rising shift in market share to private banks and non-bank finance companies is already visible. This also underscores the need for efforts to deepen India's corporate bond market.

In order for MSMEs to remain employment generators and an economic multiplier, the sector needs to leverage the subsidy scheme. But 90 percent of them cannot access formal credit. Doing something beyond the budget to mitigate this roadblock would be welcome.

In the housing sector, restriction on how much loss from house property can be set off against other income could thwart demand, and put pressure on capital values.

Further, boosters to consumption are conspicuous by their absence, especially given the slowdown in private consumption after demonetisation. That was necessary to improve capacity utilisation and business confidence, and revive the investment cycle. 

BETWEEN THE LINES: THE GOVERNMENT'S NEW AVATAR

Budget 2017 engages with the youth and sends out a signal that the government sees itself as an enabler and not the prime driver of growth

There is little doubt that Budget 2017 is different from past budgets in a few obvious ways: a) The date was advanced to the start of February, which should allow for more time for planning and executing for the next year; b) the railway budget has been merged with the Union Budget, which allows for an integrated approach; and c) there have been no changes in taxation rates for various categories and sectors, considering the same will probably be covered in the Goods and Services Tax (GST) rollout later this year.

But there is a more interesting change compared to previous budgets in a manner that requires reading between the lines.

Traditionally, the budget serves three purposes: First, it is an annual financial statement of the government outlining its receipts and expenditures. Second, it serves as a mechanism for conducting fiscal policy. And third, it is a way for the government to communicate its broad socio-economic agenda with the country.

Budget 2017 outlined

the estimated receipts and planned expenditure for the year, though the implementation of GST later this year makes this estimation somewhat tricky.

The finance minister (FM) also communicated the government's intent to remain fiscally prudent and target a fiscal deficit of 3.2 percent of GDP for 2017-18 and also, to remain committed to stay within the parameters submitted by the Fiscal Responsibility and Budget Management (FRBM) committee, even with the advent of a large structural change in the light of the planned GST rollout. This article aims to analyse the budget not for the specific proposals made in the ten different sections or along the three themes of Transform, Energise and Clean India (TEC), but its purpose of engagement with India.

For many years after Independence, the nature of the relationship between the government and the citizenry was that of master-suppliant. The citizen proposed and the government disposed—whether it was for an industrial licence, a telephone connection,

or even a basic form of identity (which a gazetted officer could provide). The narrative in the budgets also reflected the shortages and constraints and selectively distributed the benefits to those in need. The extremely high personal income tax rates for higher income segments (over 80 percent marginal rates for many years) were a reflection of the socialist premise that all wealth is bad. It was only in the late '80s that the highest marginal rate was reduced to 50 percent, coinciding with the fall of the Berlin wall.

However, in the last two decades, India and the profile of the average Indian has been gradually changing. More than 50 percent of Indians are less than 25 years old and have lived all their lives after the economic reforms of 1991. A vast majority of Indians, nearly 80 percent, believe that their lives have changed for the better in the 2000-2010 decade and believe their lives will get better in the future as well. The average Indian is also more digitally connected and politically aware. This new Indian is also more self-confident than her parents and wants to make a mark in the world. Demographics and digital technology are truly characterising the



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change in the new Indian.

Budget 2017 engaged with this new Indian and there was a subtle but noticeable shift in the narrative. Let me share some examples that illustrate this. Obviously, for each of these examples there are also instances that are a continuation from the past, whether it is in terms of subsidies or welfare programmes. Those are an important and necessary part of the role of any government.

To begin with, the finance minister had an entire section in the budget devoted to youth and the proposals were not centred around dole but were about measuring educational outcomes, online courses through SWAYAM, creation of a National Testing Agency, and plans for employment creation in four sectors—textiles, leather, footwear and tourism, where India has large untapped potential.

The emphasis on the agricultural sector, too, was interesting as the finance minister talked not about farm loan waivers and minimum support prices but about how to enable farmers to increase their production and productivity; and to deal with post-harvest



Labourers unload rice bags at a warehouse in the Vashi Agricultural Produce Market Committee (APMC) near Mumbai. Budget 2017 talked not about farm loan waivers and minimum support prices but about how to enable farmers to increase their production and productivity

challenges. The thrust of the budget was on how to create mechanisms to help with specific programmes for agricultural credit, higher coverage of farm insurance, increased irrigation and also, equally importantly, post-harvest initiatives including market reforms in the Agricultural Produce Market Committee (APMC), direct linkage for fruit processing and even a model law for contract farming.

The budget speech also had multiple references to the creation of digital assets

and infrastructure, ranging from high-speed broadband being available in 150,000 villages through BharatNet or specific targets for PoS terminals and digital transactions. In fact, the only category where the FM talked about zero excise and special additional duty (SAD) was in devices for digital transactions such as micro ATMs.

The public services section of the speech also spoke about how to reduce bother for the common man—whether it is to get defence pensions or a passport in far-flung areas, the solutions being having a web-based disbursement service for the first and using the head post office as the front end for rendering passport services.

From a signalling perspective, the budget has

also given a clear indication to the crores of non-income tax paying individuals and low tax-paying companies that there is adequate data that the government plans to mine in order to broaden the tax net.

All of this shows that the government has sent signals that it sees itself as an enabler and not the prime driver of growth, a creator of assets of public use and utility, and a facilitator not creator of jobs. It may be wishful thinking to read so much, especially if it is between the lines, but I do hope that Budget 2017 along with the economic survey (which deserves an entire article by itself) is just the start of a transformative, energising and clean India. **E**

(Views expressed are personal)

THE BUDGET HAD AN ENTIRE SECTION DEVOTED TO THE YOUTH BUT THE PROPOSALS WERE NOT CENTRED AROUND DOLE

Trishneet Arora says hacking is a skill that he acquired on his own. His initial success of breaching into his father's computer encouraged him to pursue it seriously



The Right Hack

School dropout to cyber security entrepreneur: How 23-year-old Trishneet Arora's love for technology helped him chart a different course

BY PARAMITA CHATTERJEE

Name: Trishneet Arora; **Age:** 23;
Education: School dropout

Trishneet Arora's CV reads far from perfect. When he flunked class VIII, he dashed almost all hopes of a secure future. Then, though he signed up for distance education to continue his schooling, he failed again in class XII. "I was never interested in studies. I was always a backbencher," says the 23-year-old Arora. "As a child, I did all the things I was not supposed to do and kept my parents on their toes."

But sometimes things that don't quite start out well do end up yielding positive results. Today, Arora runs cyber security firm TAC Security, which counts among its clients Reliance Industries (the owner of Network 18, which publishes *Forbes India*), Amul, Avon Cycles, Ralco Tyres and government organisations, including the Central Bureau of Investigation, Punjab

Police and Gujarat Police.

One of the youngest 'ethical hackers' in the country, Arora was just 19 when he started TAC Security in Chandigarh in February 2013. Its aim is to help a bevy of corporates, banks, government organisations and law enforcement agencies identify loopholes in their technology systems to avoid and combat cyber crime, a growing menace not only in India but also globally.

The connotation of the word hack is hardly positive but Arora calls it an art and says its implication changes depending on the cause you use it for. "There is no doubt that it also means that a person with the right skills can even hack into any bank and get millions of dollars but, remember, the next moment, he could also be behind bars. It depends on what he wants to nurture."

Notwithstanding his aversion for formal education, Arora discovered he had an instinct for technology



The number of cyber crime cases registered under the IT Act 2000 increased by about 350 percent from 2011 to 2014

quite early. “Technology has always intrigued me,” he says, recalling having been reprimanded as a child by his parents for taking out the wires of a computer and playing with them. “I was all of eight then. I dismantled my father’s computer and could not fix it,” he says. “When my father took the computer to a mechanic, I accompanied him and observed the repair work. The computer was fixed in about 15 minutes.”

This fascinated him and pushed him towards making an effort to understand hardware and software at an early age. Soon, this led to his interest in hacking. “Hacking is a skill that I acquired on my own,” says Arora. His guinea pig: His father. Arora first made an attempt to hack into his father’s computer in 2007. “The success then prompted me to take up hacking ethically later,” he says.

Hacking isn’t a skill you acquire overnight, says Arora. “You have to be naturally inclined towards it and develop a healthy curiosity to delve deep into the systems. Initially, it was a tad difficult for me to understand the basics of hacking

as there wasn’t too much reading material available on the internet then. But I relied on self-help. And as practice makes a man perfect, I realised I probably could pursue a career in it. After all, computers were the only thing I was good at.”

He even wrote his first book, *The Hacking Era*, which was published in 2013.

Though he knew he could make a profession out of hacking, he didn’t imagine he would become a first-generation entrepreneur—his father is a tax consultant and mother, a homemaker. But the growing focus on digitisation and organisations

reaching out to cyber security companies and ‘ethical hackers’ to build resilient defence systems against cyberattacks underscored the potential of this business to Arora.

According to a joint study by The Associated Chambers of Commerce and Industry of India (Assocham) and consulting firm PricewaterhouseCoopers (PwC), the number of cyber crime cases registered under the Information Technology (IT) Act 2000 increased by about 350 percent from 2011 to 2014. More recently, India made headlines late last year when it witnessed one of its biggest cyber frauds related to banks, with over 32 lakh debit cards of various public and private sector banks facing threats of breach due to hacking.

Today, a number of ‘ethical hackers’ function as independent agents and run their own ventures, while the big four accounting firms such as Ernst & Young, PwC, Deloitte and KPMG, too, have their own cyber security units. “Going forward, the demand for such services will only increase. After all, prevention is better than cure,” says Arora. “It is not just

‘Ethical hacker’ Trishneet Arora was just 19 when he started TAC Security in Chandigarh in February 2013

the victims of cyber threats who are appointing cyber security experts. Everyone else is also now beginning to understand the requirement to build their cyber defences to limit the damage from cyberattacks. As per industry data, India needs at least 1,000 cyber security startups by 2020 to fight the cyber war.”

“In the past few years, India has seen a huge surge in cyber crime across all regions and sectors and this is primarily because of the proliferation of connected technologies,” says Vinayak Godse, senior director, Data Security Council of India, a Nasscom initiative. He, however, has reservations about the term ‘ethical hacking’. “Hacking is hacking in whatever way it is seen,” he says. Godse points out that the role of cyber security firms is going to increase in the years to come “as India adopts a new digital mindset to harness the true potential of technology”.

In fact, following November 8, 2016, when Prime Minister Narendra Modi announced the demonetisation of Rs 500 and Rs 1,000 currency notes, the number of queries pertaining to cyber frauds increased dramatically in the country. Between October last year and January 2017, Arora says TAC Security received requests for help with over 70 hacking incidents, including ransomware, financial frauds and website hacking in various Indian enterprises. To break up the numbers further, during the third quarter (October-December) of the current fiscal, the number of hacking cases for TAC stood at 48, while January alone recorded as many as 23 cases. In comparison, during the previous quarter of April-June, TAC received calls for help in three such incidents, while the number was marginally higher, five, in the July to September quarter.

The government, too, is recognising the rising threat to Indian organisations from cyberattacks, and is adopting

measures to step up attempts to firewall high-tech malware threats. In Budget 2017, Finance Minister Arun Jaitley announced a proposal to create a Computer Emergency Response Team to strengthen the security of the financial sector.

“Cyber has emerged as a key focus area for senior leadership across industries, which has resulted in significantly increased demand for cyber security services. This has led to boutiques and startups coming up lately and addressing either multiple elements or specific areas across the overall cyber risk domains,” says Sudesh Anand Shetty, partner & forensic technology leader, KPMG India.

TAC Security, which had an early


“Nobody took me seriously because of my age. I began wearing business suits to look older and bring gravitas to my image.”

start and has been in the game for a few years now, offers specialised services called vulnerability assessment and penetration testing (VAPT) that help identify and quantify vulnerabilities in organisations and, in turn, provide them with an array of web security solutions to avoid any kind of data theft. Last year, it also set up a dedicated Cyber Emergency Response Team to look into quick recovery when a breach occurs. It plans to introduce new security products, including Artificial Intelligence and cloud-based VAPT technology. Besides, TAC also provides training on IT infrastructure and data security

issues to employees across various sectors. “I started training students in colleges and universities, helping them as a mentor to build their careers in cyber security,” says Arora. “I realised one day I wanted to start corporate training as well. We then designed dedicated VAPT services for banks, corporate giants and MSMEs, which worked well and we got references one after the other.”

Apart from India, TAC also works out of Dubai and, going forward, it plans to expand its global footprint by foraying into Silicon Valley by the end of this year. The startup claims to have generated over Rs 1 crore in revenue from the domestic market and Middle East so far.

In August last year, TAC Security raised an undisclosed amount in pre-Series A funding from Vijay Kedia, a stock market investor, the managing director of the privately-held Kedia Securities and a director of three-wheeler maker Atul Auto Ltd. TAC Security, which started with three employees, has since expanded to a 15-member staff. It is also in talks to raise Series A funding of \$10 million over the next one year. “It is estimated that every minute, half a million attack attempts are happening in cyberspace. I believe the opportunities available in this space are creating a new breed of ethical hackers-turned-entrepreneurs,” says Kedia.

With the money raised, Arora plans to build his team and make products that could help the firm generate more revenue. “Initially, nobody took me seriously because of my age. I started dressing up in business suits to look older and bring gravitas to my image,” says Arora who used to go to clients’ offices himself to test their systems because he lacked the team and funds. “But hard work coupled with luck and opportunity brings in success. It gives me immense pleasure to help organisations fight cyber crime. The respect you gain after doing the right job for the right cause has its own charm.” 

CROSS BORDER

JAMES PROUD

The
Black Sheep

At 25, James Proud has a quarter-billion riding on reinventing how you sleep. And this original Thiel Fellow is determined to do it his way—or fail trying

BY BRIAN SOLOMON



**The Peter Thiel
fellowship changed
James Proud's life,
turning him from an
unknown programmer
to a member of an
inaugural class of
wunderkinds**



It's only six blocks from James Proud's office, a brick-walled converted bakery in San Francisco's Mission District, to Central Kitchen, a hip restaurant owned by fellow Forbes 30 Under 30 alum Thomas McNaughton, but that's plenty of time for the 25-year-old to take on more or less all of Silicon Valley. People who complain about finding good talent just don't know how to recruit. Traditional venture capital firms? Unnecessary. By the time we reach the host stand, he's deriding the entire tech community for their "airy-fairy bulls*#t about changing the world."

This absolutism feels all the more jarring given that his short, bulldog frame and pudgy baby face make him look like the high school computer-lab nerd he once was, a persona buttressed by his wardrobe (a sweatshirt and sweatpants almost all the time, a black T-shirt if he's feeling dressy) and diet (no vegetables, no fish). The latest in the 21st-century cavalcade of cocky prodigies in the mould of Sean Parker, Mark Zuckerberg and Evan Spiegel, Proud was born thumbing his nose at other people. "No one can make me do what I don't want to do," he says. He's been professionally bred this way, too.

James Proud was in the first class of Thiel Fellows, the upstarts—122 and counting—who for the past seven years have taken \$100,000 each from billionaire contrarian Peter Thiel on the condition they skip college. And he's also the most successful. Over the past four years, he's raised roughly \$40 million for his startup, Hello, mostly at a \$250 million valuation. He's recently been raising bridge financing, at an even higher valuation, including a direct \$2 million ante from the godfather himself, Thiel. It's his first personal investment in one of his fellows. "James stood out from the start as extremely tenacious and determined," Thiel says.

And now he's rich, too. Proud still owns about half of Hello, pushing him



well into centimillionaire territory.

Proud's chosen market is right up there with death and taxes in terms of universality: Sleep, which has suddenly become a bit more sexy and a bit less sleepy than it has been for the past few millennia. "You're starting to see a shift in conversation around sleep that happened in the '80s around exercise and in the '90s and 2000s with organic and healthy eating," Proud says. Arianna Huffington has raised \$7 million for Thrive Global, which offers a suite of products and services driven by the idea that more sleep translates to a better life, and Casper, the mattress-will-change-your-life startup, has raised \$70 million.

Proud's focus is on hardware, specifically an orb the size of a tennis ball that sits on your bedside table and uses a variety of hidden sensors to track your movements and the surrounding night-time atmosphere. The \$149 gadget, called Sense, grades your sleep on a scale from 0 to 100—and tries to help you improve that score over time. Proud claims that the Sense holiday rollout at Target is the biggest the retailer has ever done for a new electronics product (Target says that's incorrect).

Big orders won't guarantee big success, at least not immediately. A source close to the company says the internal sales projection for 2017 is 250,000 Sense units, implying net revenues in the ballpark of \$20 million. Tiny compared even to a flagging competitor like Fitbit, which likely finished 2016 with sales of more than \$2.3 billion—and even at that size, it's barely profitable. Meanwhile, a triad of monoliths—Amazon, Apple and Google—stand determined to put connected devices on every conceivable surface of your body and in every space in your home.

What does Proud think of his trillion-dollar competitors? Looking up from his lamb ribs and roast pork, he lifts both hands in a double-middle-finger salute.

It's the kind of brashness that a Peter Thiel could love. That tack surely worked for Zuckerberg and Spiegel. But youthful hubris goes back to Icarus, and that tale didn't end with an IPO. Given his complicated market, dotted with pitfalls and entrenched enemies, Proud will ultimately demonstrate whether unswerving self-confidence is a necessary entrepreneurial attribute or a potentially fatal flaw. At the Forbes Under 30 Summit in Boston last October, Proud was asked backstage whether he'd ever met Richard Branson, whom he would soon join on a panel. "The real question," Proud responded, "is whether Branson has ever met me."

Proud emptied his savings to buy a plane ticket and demanded that the first Thiel cheque be sent early. They caved

Proud grew up less than an hour away from Branson's childhood home south of London. His father worked for the British civil service, and his mother was a secretary who later stocked grocery-store shelves at night. Proud preferred haunting the computer lab to making friends on the playground. His first internet payday came at the age of 12, when he built a website for a scammer he had met through an online forum (he spent the money on a Sony Ericsson mobile phone and Creative Labs MP3 player). As a hired hand for web projects, he began making hundreds of dollars per job. At one point, his PayPal account was frozen because he was underage, so cash arrived in the mail,

prompting questions from his parents.

At 17, Proud started GigLocator, a website that aggregated concert-ticket information, and persuaded his parents to let him take a gap year to work on it. He fed himself by faking hole punches on loyalty cards from a British chicken chain, Nando's, or else schmoozing venture capitalists and other European techies over lunch, always letting them pick up the cheque. "Already back then, James had this laser-sharp focus about what he was going to do for the next ten years," says Spotify founder Daniel Ek, who met Proud playing ping-pong during that period. "It was incredibly rare to see that from someone who should have been more focussed on girls and school."

Proud would have been the first in his family to attend college, but when the day came to enrol, he refused to go, despite his parents' pleas. Then, on a September day in 2010, Proud found his saviour at 1 am while watching a live stream of the TechCrunch Disrupt conference. There Thiel announced his eponymous fellowship: A \$100,000 grant to each of 20 teenagers who wanted to skip college to pursue another dream. Proud decided to apply on the spot.

When Thiel flew the finalists out to hobnob in San Francisco, Proud was surrounded by preppy American kids with acceptances to Harvard they wanted to turn down. He returned to London, sure he wouldn't make the cut. "I wished I didn't even come," Proud says. "I was going to have to go back and hate my life because I'd seen that this would be so much better." But in April 2011, Thiel's organisation called to give him the good news. They also told him to sit tight until July. Proud, of course, was in a hurry—and not listening to anyone who would stop him. He quickly emptied his savings to buy a plane ticket and then demanded the first Thiel cheque be sent early, lest he end up sleeping on the street. They caved.

The fellowship changed Proud's

life, turning him from an unknown programmer living with his parents to a member of an inaugural class of wunderkinds. While crashing on air mattresses and couches for most of the next year, he took advantage of every door the Thiel brand opened across Silicon Valley. For a time Proud worked out of PayPal co-founder Max Levchin's incubator, and in June 2012, he offloaded GigLocator to the concert promoter Peter Shapiro, earning himself a cool six-figure payday. ("That's one young, smart motherf*#er," says Shapiro.)

Soon after, Proud began raising money for a new stealth startup that would become Hello. "I said, 'I'm in for whatever amount you'll let me in for,'" says Shakil Khan, an early Spotify investor that Proud befriended in London. "He said, 'I still haven't finalised what it's going to be'. And I said, 'That's irrelevant'."

The original idea for Hello was to build a better version of the activity-tracker wristband pioneered by Fitbit and Jawbone. Proud recruited a handful of young hardware engineers and spent 18 months developing a prototype, which included a magnetic strap similar to one that would later appear on the Apple Watch. But over time, Proud quietly soured on its potential. He noticed that no one on his team wore any existing product on his or her wrist for more than a few weeks. Consumer surveys show similar results, with estimates that about a third of wearables owners give up on their devices within the first six months. Plus, competition was fierce. Google would announce Android Wear in March 2014, and the Apple Watch debuted in September. Proud was already late to a category in which he no longer believed. "So what do you do? Do you give the money back to investors and send everyone home?" he asked.

The epiphany came when Proud flew out to New York City to attend a birthday party in March 2014. Distracted by his dilemma, he

brainstormed about products that wouldn't need to be worn at all times and suddenly arrived at sleep tracking. People enjoyed the feature on wristbands but hated wearing them overnight. He brought the team together when he returned and told them they would be scrapping a year-and-a-half of work to start over. "I wore the wristband prototypes for a good two weeks after, holding on to the work we had done," says Hello's first industrial designer, Rob Shook. Proud also had to sell his decision to an angry group of investors who had supported a \$7 million Series A only months earlier. To placate

What does Proud think of his trillion-dollar competitors? Looking up from his lamb ribs and roast pork, he lifts both hands in a double-middle-finger salute

them, he granted additional shares to everyone who participated in the round, including Khan, David Marcus, then-PayPal president, and Hugo Barra, then-Xiaomi vice president. "Had the decision to pivot come three months later, I don't think the company would have survived," says Dan Rose, Facebook's vice president of partnerships and Hello's only board member other than Proud.

Proud's move away from wearable devices took Hello out of a crowded but expanding market—an estimated 67 million smart watches will be sold this year—and

made it the pioneer of a completely new one. "If it can work, it can end up being a consumer device on par with the iPod," Thiel says. A huge if. Searching for scientific backing, Proud hired Matthew Walker, director of the Sleep & Neuroimaging Laboratory at the University of California, Berkeley, as Hello's chief scientist. Walker believes that lack of sleep is an "epidemic" in First World countries and that Sense can help fix that. After one year of use, 71 percent of Sense users slept longer on average than they had before, and 57 percent had more regular wake-up times, the company claims. Hello hopes to do even better as it tests more personalised sleep techniques.

Proud proved there was a market for sleep-centred products, at least among early adopters, with a successful Kickstarter campaign in July 2014. After racing to build a basic hardware prototype and marketable software façade, Hello launched its campaign with a slick video and a goal of \$100,000. It blew past the finish line, scoring \$1 million in the first four days and \$2.4 million after one month, just a hair shy of VR phenomenon Oculus Rift's crowdfunding haul. That summer proved an intoxicating high, but there was so much to do to make the marketing pitch a reality that four bottles of celebratory champagne sat in the office refrigerator unopened until this past Thanksgiving.

Hello promised delivery by November 2014 but delayed the first shipments until February as production challenges mounted. Sense is a two-part system that includes a bedside device—an amalgam of LEDs, circuits and sensors to detect light, sound, temperature and air quality, all stuffed into a small sphere—and an accompanying battery-powered, Bluetooth-enabled 'Sleep Pill', which clips to your pillow to track movement. The team had to design many of the manufacturing tools themselves. That following June, Hello brought in a \$30 million cash

SCORECARD: HOW HAVE THE THIEL FELLOWS FARED?

In 2011, Peter Thiel embarked on an audacious plan: He'd give a group of teenagers \$100,000 each to forgo college—and build their own startups from scratch. It quickly generated immense buzz as applications poured in. In the end, 24 young entrepreneurs became the first Thiel Fellows. Over the next five years, that freshman class followed a number of different paths. Some stuck with their initial idea, while others changed course completely. And only a handful completed a key Silicon Valley rite of passage: Raising money for their startup. —*Matt Drange*



RAISED MONEY

Only four fellows, or about 16 percent of the original Thiel class, have raised more than \$1 million since taking Thiel

up on his offer. **Paul Gu**, co-founder of Upstart, leads the pack, having raised \$53 million for the online-lending marketplace. **Andrew Hsu**, meanwhile, was the first to get funding, scoring \$1.5 million for his Airy Labs, a maker of educational games for kids.



STUCK WITH THEIR FIRST PLAN



Roughly half have kept going on their original projects. **Dale Stephens**, for example, has stayed at the startup he founded,

UnCollege, which puts together gap-year programmes, while **Laura Deming** remains at her biotech-focussed venture capital firm, the Longevity Fund.



WENT TO SCHOOL

There's no rule that Thiel Fellows can't eventually attend

college. At least five fellows have done so, including **David Luan**, who graduated from Yale and has a new machine learning company, Dextro.



INTERTWINING TIES TO THIEL

At least three fellows besides James Proud have continued to stay connected in some way to Thiel: **Eden Full Goh**, who started a solar company before leaving for Palantir, the data-mining firm Thiel co-founded; Tom Currier, who joined Thiel's Founders Fund as an entrepreneur-in-residence after starting Black Swan Solar; and Daniel Friedman, who received funding from FF Angel, one of Thiel's VC firms, for Thinkful, his startup that offers online coding classes.



CHANGED DIRECTIONS

A dozen or so fellows have moved on from their initial concepts. For his part, Sujay Tyle worked on founding Hired, a job-search website, then left to join one of Hired's investors, Sherpa Ventures.

infusion at the \$250 million valuation from the likes of Temasek Holdings, a government-owned investment fund in Singapore, but the rest of the year was lost to fixing bugs and rewriting core features. In 2016, as Amazon rolled out the Echo and Google revealed Google Home, both voice-enabled wireless speakers, Proud pushed the team to add voice controls to the latest Sense, which went on sale this past November.

"The big challenge is always: Can you lock in the market enough before people develop copycats that are cheaper and roughly equivalent?" Thiel says. "This is always something a little harder for hardware than software."

Unfortunately, even the new version feels like an unfinished product searching for a market. After trying it for a week, I enjoyed Sense's novelty as a smarter alarm clock with limited voice commands and the ability to turn off the alarm with a wave of your hand. But for my \$149, the core functionality is too inconsistent. It's supposed to detect when you fall asleep and wake up, and analyse your tossing and turning to see how many hours you're in deep sleep. Yet the Sense interprets data gathered from the clip on my pillow rather than a band on my wrist, so it frequently fails to register when I get up from bed and often confuses my fiancée's movement for

my own. Even if it were accurate, neither the sleep results nor other measurements are groundbreaking. Everyone already knows that blackout curtains are good for beauty rest and a barking dog is bad.

Other warning signs abound. Proud boasts about the new Hello displays in nearly 700 Target stores across the country, but the only inventory in Oakland was one Sense tucked in a side cabinet next to some Apple TVs and Linksys wireless routers. A survey of Best Buys around New York found only one with the product in stock; other stores indicated you needed to order it. And when I brought a Sense home, I nearly abandoned the set-up process after an hour of trying

and failing to plug in the charging cable. Hello says a new manufacturer had constructed the USB port a millimetre off target in a few units.

While plenty of questions remain about Sense, Proud now treats his risky pivot as a thesis statement. He trashes devices that need to be worn (like the Apple Watch) or require direct interaction (like the home assistants from Amazon and Google). His goal is to cover the entire 24 hours of your day with a few “non-engagement” health-tracking devices like Sense. “It’s a tragedy that we can’t build and release them all right now,” Proud asserts.

He’ll need to diversify his product line soon to avoid the fate of other hardware startups like fellow Kickstarter darling Pebble, which shut down in December, and drone maker 3D Robotics, which crashed after burning through \$100 million in funding. Even public companies like Fitbit (trading down 86 percent from its peak) and GoPro (down 90 percent) have struggled. “On one hand, it’s easier than ever to build a hardware product,” says Jan Dawson, analyst at Jackdaw Research. “But in some ways it’s harder than ever to be competitive and build a sustainable business.”

In the meantime, Proud must mature as the leader of a 50-employee startup trying to go toe-to-toe with companies that outnumber and out-finance him. While friends extol Proud as wise beyond his years, former Hello staffers describe him as a smart but inveterate risk-taker who often unravels in tense situations. “You could see the pressure got to him, and sometimes I would think it’s because he’s young,” a former Hello engineer says. “He would suddenly rush in saying, ‘We need to do X because people are complaining about it.’” Instead of patiently adhering to a long-term plan, Proud is prone to rash decisions. “The ability to take risks and be aggressive is the foundation




The sleep doctor is in: For \$149, the Sense is designed to track your sleep—and analyse how to make it better

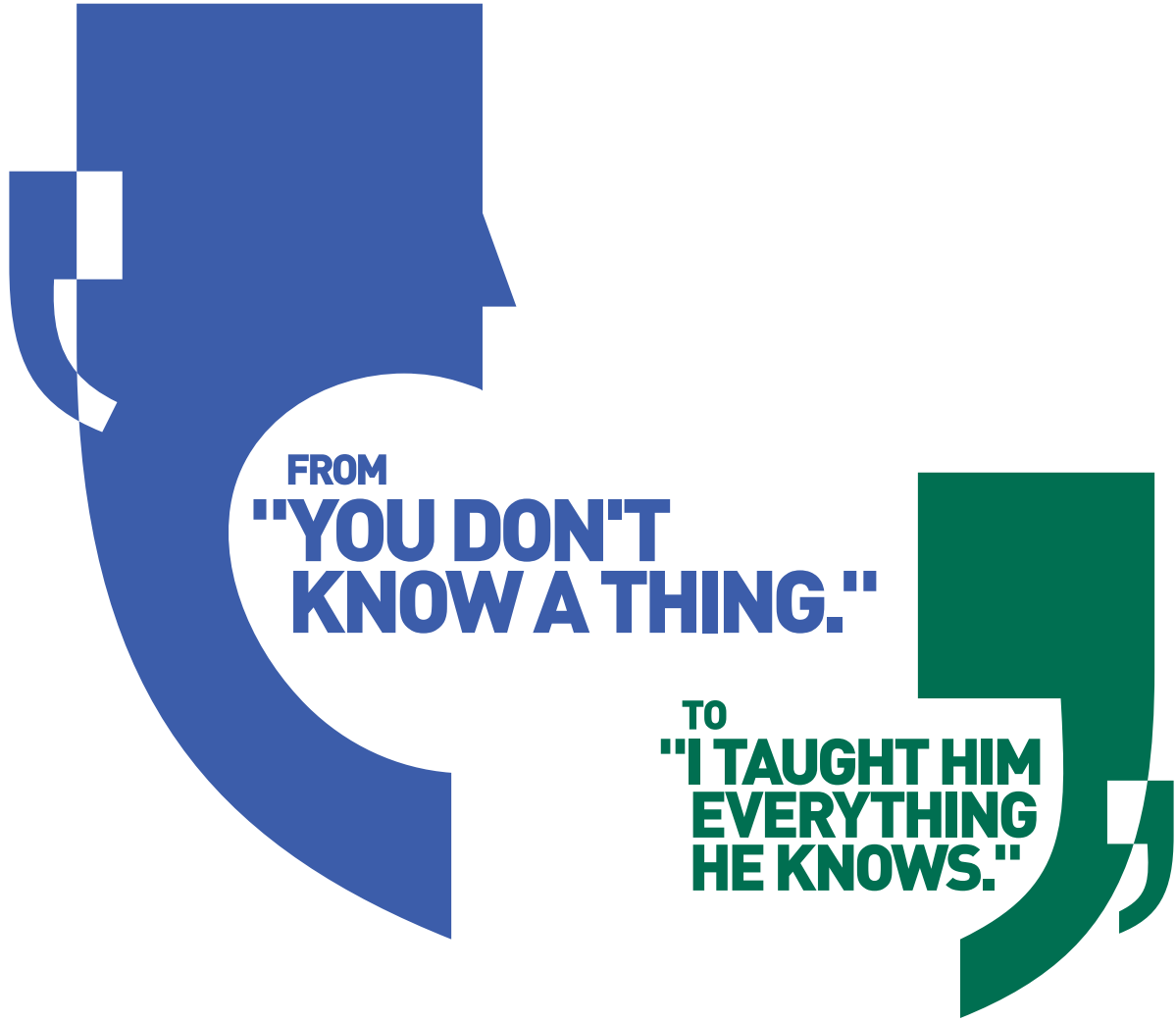
of James’s decision making, and it may eventually come back to bite him,” says one ex-Hello employee who worked closely with Proud for more than two years. “If that day never comes, he’s a genius. If it does, the warning signs were there.”

Proud doesn’t deny he can be a capricious boss. In December 2014, on

the morning an engineer was set to fly to China to install the final firmware for the Sense’s first manufacturing run, Proud decided to add one more feature. His CTO, Tim Bart, told him it was insane to change anything in the code at such a late hour, but Proud was suddenly convinced that Sense should light up and play a sound when it was plugged in for the first time—like a computer booting up.

After a bruising argument, Proud got his way. The engineer finished coding the change on the cross-Pacific flight, and through skill and luck avoided introducing new bugs into the final product. Was that last minute intervention a Steve Jobs-like moment of product genius or the power trip of an enabled, immature founder? Proud’s analysis of his behaviour in hindsight is simple and unapologetic: “Well, I was right.” 

Sense, which costs \$149, grades your sleep on a scale from 0 to 100—and tries to help you improve that score over time



FROM
**"YOU DON'T
KNOW A THING."**

TO
**"I TAUGHT HIM
EVERYTHING
HE KNOWS."**

Forbes^{INDIA}

GET INFLUENCE.
GET RICH. GET EVEN.

EXPECT THE UNEXPECTED

JUST LIKE ITS PREDECESSOR, 2017 PROMISES TO BE A ROLLERCOASTER RIDE.
A CURTAIN-RAISER ON HOW TO NAVIGATE THE INVESTING LANDSCAPE

BY SAMAR SRIVASTAVA

2016 HELD AN IMPORTANT LESSON FOR investors—that surviving volatility is as important as making the right investment.

It was no ordinary year. The sharp market swings following Brexit, the election of Donald Trump as America's president and Prime Minister Narendra Modi's surprise demonetisation announcement singed investors. What is significant is that those who stayed put were none the worse off. Each time,

each jolt later, the markets recovered.

This much is certain: 2017 promises to be no different. Brace for volatility, make it your friend, stay the course and profit from it.

It is against this uncertain investing backdrop that large Indian companies are looking attractive once again. Over the last three years, their smaller counterparts have delivered superlative returns. Could it be their turn now?



Our story (*page 58*) points to an informed yes as a faster global growth forecast, rising commodity prices and lower relative valuations mean this is likely to be the year of large-caps.

Large-caps have propelled Birla Sun Life Frontline Equity Fund to the top of the fund size table. The story of how fund manager Mahesh Patil went back to the drawing board after the 2008 financial crisis and overhauled its investing process is a compelling one. Read that on *page 62*.

Rapid growth companies, such as those the Birla fund has invested in, are facing a peculiar problem—identifying investible opportunities with the cash they’ve generated. What should companies ideally do with this cash and how should an investor view the cash on the books of a company? There’s no one answer with different investors offering various suggestions (*page 66*).

While equity markets have outperformed other asset classes, real estate remains a sound bet for those wanting to buy a house to live in. “Just as you can’t time the top of the cycle, you can never time the bottom of the cycle,” says Srini Srinivasan of Kotak Investment Advisors. We also ask him why he believes residential demand could come back faster than expected (*page 80*).


Commodities have been on a tear this past year. Those who took a contrarian call in 2015 were rewarded handsomely in 2016. While the first leg of the commodity rally has played out, investors are now waiting to see whether the new US president follows up on his promise

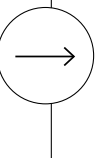
of infrastructure spending. This could provide a further fillip to prices of iron-ore, zinc and copper. Any hint of fiscal expansion will be greeted cheerfully by commodity markets (*page 78*).

Gold, a safe haven asset, had a good year in 2016 as investors took shelter from political shocks like Brexit. The approach tends to be to not invest in gold to beat the markets as over long periods, it tends to underperform. But in 2017, gold should do well if the US dollar remains weak and investor demand climbs up during times of volatility (*page 76*).

The more cautious investor, who typically invests in fixed income, had a happy 2016 as bond yields fell rapidly. Their returns outpaced a large-cap index fund. For most, this was a pleasant surprise. At the same time, nothing lasts for too long and investors wanting to do better in bonds would be better off shifting to shorter maturity bonds (*page 70*). They’ll also have to keep a close eye on India’s credit rating as a cut could see yields spike.

To round off this special package, we bring you two interesting trends. One, on bottom-of-the-pyramid businesses where returns have been steady: Equity funds who invested in them have done well as a column by Viswanatha Prasad, CEO, Caspian Advisors, an impact investing fund (*page 68*), points out.

And two, on HNI investors, with a greater appetite for risk, who are investing in startups as a new asset class, seeing themselves as partners in their progress (*page 82*). 





The Large Comeback

INFLATED VALUATIONS HAVE MADE MID-CAPS PROHIBITIVE.
AND THAT SEGMENT'S LOSS IS THE LARGE-CAPS' GAIN

BY PRAVIN PALANDE

Mid-cap stocks have been the flavour of the last five years. The NSE's Nifty Full Midcap 100 index went up by 17 percent annually over the last five years against 10.56 percent for the Nifty 50 in the same period; many top mid-cap funds gave returns of as much as 30 percent annually. But are these returns from mid-caps sustainable?

“Three years ago, the mid-cap segment was completely undervalued and there was an 80 percent chance of you picking up a winner. Now that chance has gone down to 20 percent,” says Neelesh Surana, chief investment officer (CIO) of the mutual fund Mirae Asset. “It is now going to be difficult to find undervalued mid-cap companies but that is not to say they are impossible to find.”

In comparison, then, are large-caps—the top 200 companies by market capitalisation—beginning to look attractive? Certainly, from a risk-return perspective, say fund managers.

Large-cap stocks are currently valued at a price-to-earnings (P/E) multiple of 23 times—this is close to their 11-year average of 20. Mid-cap stocks, on the other hand,



SAMEER PAWAR

have a P/E multiple of 30 which appears expensive compared to their 11-year average of 18 (see chart *Following the P/E*). It then becomes prudent for investors to limit their exposure to mid-caps.

As any fund manager worth her stock will tell you, most mid-caps reach a point from where it becomes difficult to grow. That is typically the time for exits. Then there are mid-caps that operate in the real estate and infrastructure space which end up taking too much debt and are not able to perform after they hit a critical size. One such example is Unitech, a real estate infrastructure company, which was a favourite mid-cap stock in 2007. After the global financial crisis, however, it has lost 90 percent of its value.

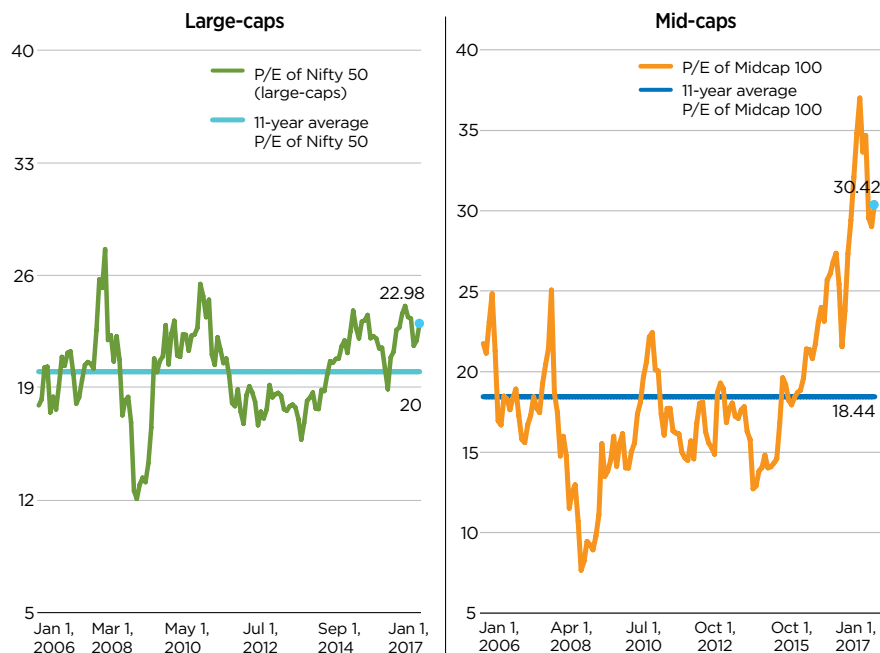
Rajeev Thakkar, CIO, PPFAS Mutual Fund, says that by the nature of the size and the market that large-cap companies cater to, they are less risky and have a well-diversified product portfolio. "Large-cap companies are less risky because they have more product segments. They are also good at managing their debts and have a professional management," says Thakkar.

The relative safety of large-cap stocks is also higher because large-cap companies have more exposure to global growth. And, according to the International Monetary Fund (IMF), global economic activity is expected to pick up in 2017-2018: Growth in both advanced economies and emerging markets and developing economies (EMDEs) is forecast to accelerate in the next fiscal, up to 3.4 percent and 3.6 percent respectively.

The IMF's optimism about global growth directly impacts the fortunes of large-cap companies, agrees Manish Gunwani, deputy CIO, ICICI Prudential AMC. "If global growth is expected to be robust, driven by developing countries, then large-cap companies have more to gain than the mid-cap segment because

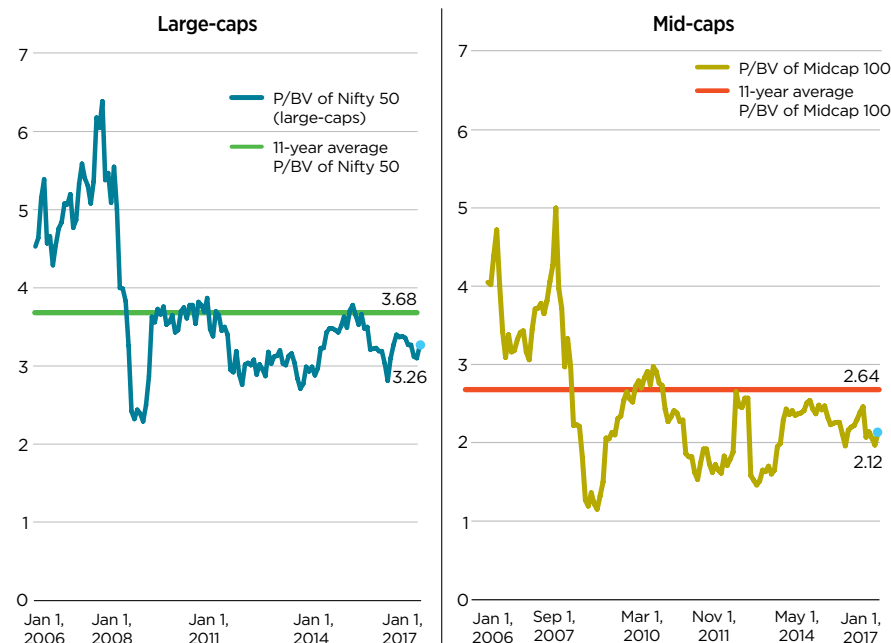
FOLLOWING THE P/E

Both large-caps (represented by the Nifty 50 index) and mid-caps (represented by the Midcap 100 index) currently trade above their historical price-to-earnings ratio. But mid-caps are far more overvalued



ON THE P/BV TRAIL

In terms of price-to-book value, both large-caps and mid-caps currently trade close to their historical average



Source: Capitaline



RISK-ADJUSTED RETURNS OF SOME LARGE-CAP FUNDS

The Sharpe Ratio is the industry standard to measure risk-adjusted returns. A higher value of Sharpe Ratio is preferable

Fund	Sharpe Ratio	Long-term Sharpe Ratio	5-year CAGR (%)	AUM * (Rs cr)
Kotak Select Focus	1.02	0.74	19.61	7,180
SBI Bluechip	1.00	0.83	18.7	10,100
Mirae Asset India Opportunities	0.97	0.79	18.75	2,560
Kotak Opportunities	0.92	0.60	17.62	1,000
DSP BlackRock Opportunities	0.89	0.60	18.27	1,300
DSP BlackRock Focus 25	0.78	0.53	14.45	1,870
ICICI Pru Nifty Next 50 Index	0.78	0.58	18.48	47
Birla Sun Life Top 100	0.76	0.68	17.45	2,200
Birla Sun Life Frontline Equity	0.75	0.67	17.23	13,524
Reliance Top 200	0.71	0.60	16.65	2,340

Sharpe Ratio is based on three-year returns from January 2014. Long-term Sharpe Ratio is based on three-year monthly running data since January 2010. All schemes above are regular growth schemes.

Source: Morningstar India

*Assets under management

the former deal in information technology, oil and gas, metals and pharma.” These sectors have strong linkages in foreign markets, particularly in terms of pricing.

THE MID-CAP WORRY

A scan of the quarterly data for both the Nifty 50 as well as the Midcap 100 companies reveals that the December 2016 quarter was one of the worst for both segments of the market. On a sequential basis (i.e comparing it with the September 2016 quarter), Nifty 50 sales were down by 46 percent and profits by 27 percent. For the Midcap 100, sales reduced by 62 percent and profits by 65 percent.

Just on the basis of this data, it is clear that mid-cap valuations are inflated. Yet, the inflows keep coming in through domestic mutual funds.

This is a far cry from nearly a decade ago, when mid-cap stocks lost favour after the 2008 financial crisis. In fact, data from investment research firm Morningstar India show that inflows for mid-cap funds as well as large-cap funds remained negative till December 2013: That month saw a reversal and mid-cap funds had a positive inflow of Rs 38 crore. They continued to grow in popularity, and by May 2014, net inflows had touched Rs 1,194 crore. Positive investor sentiment also manifested

in positive inflows into large-cap funds, which in subsequent years exceeded inflows into mid-cap funds.

Late last year, two events seriously affected investor sentiment. On November 8, the Indian government demonetised high-value currency notes and on the same day Donald Trump was elected president of the United States.

Though demonetisation was expected to affect the sales of listed companies, data for auto,

Valuations of large-caps have gone up but mid-caps are far more expensive

banks, cement and consumer goods has remained positive for the October-December quarter.

“In terms of demonetisation, the hit has been more for the unorganised sector than the organised sector. So the listed space is not affected,” says Gunwani. “The market has already discounted the Trump protectionism for pharma and IT stocks.”

In the past few months, however, while the valuations of large-caps have also gone up, mid-caps look far more expensive.

Unlike in the large-caps space, fund managers argue, investment calls in the mid- and micro-caps space are usually management-

specific. And the right calls can yield the right results. Take the example of DSP BlackRock Micro Cap fund which, even on a one-year basis, has given a 40 percent return.

In fact, fund managers we spoke to say that the likelihood of a mid-cap crash is low. They believe growth will return because the effect of demonetisation has already played out. And even if growth is not as per expectation of, say, 12 to 15 percent in terms of profits, the stocks will, at worst, stagnate and not experience a huge correction. This is because the flows from domestic funds, as mentioned earlier, are sticky.

“Risk becomes an issue only when there is no growth. I think growth [in mid-caps] will come back but you will have to choose sectors or stocks carefully. But I agree that the valuations of mid-caps are much higher compared to large-caps,” says Mahesh Patil, co-CIO of Birla Sun Life Mutual Fund, who manages the Birla Frontline Equity Fund (see story on page 62).

Patil points to the huge potential in the large-cap space, particularly in the

banking and financial sector, as well as the auto sector. He also finds the oil and gas sector attractive because it is trading at low P/E multiples of 10. At the same time, he cautions that the IT and FMCG sectors will experience moderate growth and are highly valued at current prices; FMCG large-caps are trading at a P/E of 45 times.

Anup Maheshwari, head of equities at DSP BlackRock, too, agrees that mid-caps are now expensive.

“The large-cap space looks relatively more attractive. Equities in general are now richly valued. Investors should now not think of quick returns when investing in this asset class,” he says.



FROM
**"YOU'RE NOT
WHAT WE'RE
LOOKING FOR."**



TO
**"HE VISITED
OUR OFFICE
ONCE."**

Forbes^{INDIA}

GET INFLUENCE.
GET RICH. GET EVEN.



The Knife Catchers

A BALASUBRAMANIAN AND MAHESH PATIL HAVE BUILT BIRLA SUN LIFE'S BFE FUND INTO INDIA'S BIGGEST LARGE-CAP FUND BY SPOTTING HIDDEN OPPORTUNITIES

BY PRAVIN PALANDE

In June 2013, Mahesh Patil, co-chief investment officer (CIO) at Birla Sun Life Mutual Fund, and his team were scouting for new ideas in the equity space. It was important for Patil to set himself up for the good times around the bend. They were looking for changes—in management style and strategies of companies, or structural shifts in an industry—across various sectors.

Patil noticed that non-banking financial companies (NBFCs) were poised for growth, and Bajaj Finance was acquiring customers at the lowest possible cost. Patil and his team made a trip to the company's headquarters in Pune and spent a day with Sanjiv Bajaj, vice chairman of Bajaj Finance, and also met the senior management.

They liked what they saw: Bajaj Finance, which dealt with consumer finance and multiple verticals, was using a lot of data mining to understand customers; their risk management systems were solid. Patil started buying the stock—which was priced Rs 1,200—immediately for their Birla Sun Life Frontline Equity Fund (BFE), a large-cap





While Birla Sun Life CEO A Balasubramanian (left) says he tries to keep his employees calm, co-CIO Patil says his aim is to build a consistent fund rather than the biggest fund

fund that also allocates 15 percent of its portfolio to mid-caps; his team thereafter continued to increase the stock's position in their portfolio.

Their faith has been validated. Bajaj Finance has shown income growth of more than 30 percent annually, with a consistent return on equity (RoE) of 20 percent; it has given a return of 88 percent annually over three years, and is trading at Rs 1,000 levels (if not adjusted for bonus shares, the price would be around Rs 11,000). The stock currently adds 1 percentage point to BFE's annualised returns.

Sitting in his office at Mumbai's Lower Parel, Patil, 48, along with A Balasubramanian, 50, CEO of Birla Sun Life, recalls their journey of building a mutual fund house through the ups and downs of the market. "We decided to look at our entire process of investing after the global financial crisis in 2008. Till then,

we were focussed on domestic events. After the crisis we started to track global macro factors, and decided to build Birla Sun Life Frontline Equity Fund as the flagship fund.

All our focus was on this equity scheme. In 2004, it was one of the small funds in the market, with assets under management (AUM) of around Rs 7 crore; today it is at Rs 13,500 crore," says Balasubramanian.

Birla Sun Life MF has total assets of Rs 1.80 lakh crore, making it the fourth largest fund house in India in terms of assets. Of this, 28 percent (Rs 50,000 crore) account for equities; in 2009, equities accounted for 15 percent (Rs 8,000 crore). Balasubramanian largely associates this increase to the growth of BFE, which is the largest mutual fund in the large-cap equities category according to Value Research, a fund analytics company. (See chart *BFE in Numbers*.)

In 2013, following the announcement of Narendra Modi as a prime ministerial candidate, the



stock markets were on a roll, where mid-caps benefited more than the large-caps; the Nifty Full Midcap 100 Index rose by 30 percent annually over the last three years, while the S&P BSE 200, the benchmark index for large-cap funds, went up by 16 percent annually. BFE has managed to clock returns of 21 percent in this period. “We always had a process-driven approach towards investing, and had to handle funds that came to us from legendary fund managers. So it was really important for us to take our fund house to another level. Patil came in and built the team in 2006, and their equity calls have worked well for us,” says Balasubramanian.



In October 2004, Birla Sun Life MF, which had assets of Rs 8,982 crore, took over Alliance Mutual Fund, with assets of Rs 1,951 crore. BFE—then called Alliance Frontline Equity—was part of the Alliance stable.

When Patil joined Birla Sun Life in October 2005, he was given charge of BFE, along with Alliance 95 (renamed Birla Sun Life '95 Fund) and Alliance New Millennium Fund (renamed Birla Sun Life New Millennium Fund).

In the late 1990s, these funds were managed by Samir Arora, who made a name for himself during the dotcom bubble by investing in software stocks. For the year 1999, Alliance 95 had generated a return of 180 percent. During the same period, Birla Sun Life Advantage Fund became popular because of its CIO, Bharat Shah, who, like Arora, took concentrated bets in software stocks; the fund gave more than 300 percent returns in one year.

After the dotcom bust, Shah joined ASK Group in 2002, and Arora moved out of Alliance Mutual Fund in 2003.

In 2006, Balasubramanian—who had worked with Birla Sun Life since 1994, and is one of the few veterans in the mutual fund industry to have stayed with a single fund for his entire career—became CIO. In April 2006, the fund was ranked sixth in terms

of assets under management, with Rs 17,389 crore. It was important for it to perform and improve its overall ranking. To do that, Balasubramanian told Patil to build a bottom-up approach towards investing.

In 2006, the markets were on a bull run and the capital goods sector was witnessing a lot of action. Patil had tracked capital goods and telecom

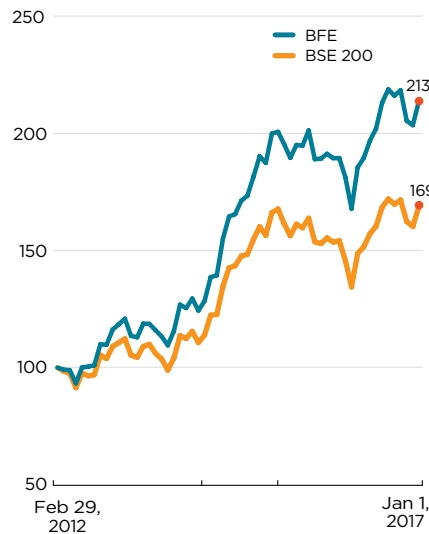
for almost 10 years while at Motilal Oswal Financial Services and Parag Parikh Financial Advisory Services. When these sectors became the flavour of the market, he was able to bring the equity schemes of Birla Sun Life back into the limelight.

Patil started looking for long-term investments, which included scalable businesses, good management quality and growth. It was important to identify stocks and include them in the portfolio as quickly as possible, before they ran up in valuation. The team reduced the time taken to do this from months to weeks, with four fund managers and seven research analysts working through weekends. The Birla Sun Life Infrastructure Fund was up 92 percent in one year in November 2007, compared to the benchmark BSE 200 index's 70 percent; most of the other funds performed in line with their respective benchmarks, but BFE underperformed. This did not rattle Patil and the team. “BFE underperformed because there was euphoria in the market, and BFE was not getting carried away, which helped in later years,” Patil explains.

And then the global financial crisis hit the markets. Most equity funds suffered, while BFE managed to stay afloat; while the BSE 200 was down by 68 percent for the year till October 2009, BFE was down by 58 percent. BFE increased its liquidity to 30 percent in cash from a pre-crisis 5-7 percent.

Balasubramanian relied heavily on market intelligence at the time. In 2009, he hired an analyst from Merrill Lynch to track international trends, and created a composite risk index to track commodity data across the globe. Patil, on the other hand, was telling his team to cut risky positions in metals and refineries, and in stocks affected by global events. “Patil is like Gautam Buddha. You can never shock or surprise him. So even when we were in the middle of a financial crisis he was not losing his cool. He

BIRLA FRONTLINE: BEATING THE INDEX



Source: Morningstar India

TOP HOLDINGS

Stock	Percentage of Net Assets
HDFC Bank	6.42
Infosys	4.65
ITC	3.66
ICICI Bank	3.63
Reliance Industries	3.32
Tata Motors	3.28
Maruti Suzuki India	2.75
Kotak Mahindra Bank	2.56
HCL Technologies	2.48
IndusInd Bank	2.48

Source: Birla MF Factsheet

was ready to experiment, and was happy to catch falling knives,” says Vineet Maloo, a senior analyst and fund manager who works closely with Patil. (‘Falling knives’ is a phrase in equity markets that describes stocks that are losing value and could either collapse completely or bounce back.)

During the financial crisis, Patil bought Rural Electrification Corporation (REC) at Rs 60 and saw its stock price touch Rs 300 in a year. He also bought IndusInd Bank and Cummins India, both the stocks giving good returns.

Well after the crisis years, Patil took a bet on the real estate company DLF, in 2015. DLF had a large commercial portfolio that was doing well, and the company was restructuring its debt of Rs 21,000 crore. The company was 60 percent below its intrinsic value at Rs 93 in January 2015. Most fund managers had chosen to stay away from the real estate sector. But that is the reason Patil calls DLF his contra bet: He held DLF to the tune of one percent of his portfolio for six months and exited with 60 percent returns.

Similarly, in January 2016, when there was a global commodity crisis, Glencore, an Anglo-Swiss commodity trading and mining company, saw its bond yields rise and its stock price fall by 75 percent from the previous year. There was bad news across all commodities, which also affected Indian commodities companies. As analysts at Birla Sun Life tracked the effects on Indian markets, Patil took a call to buy commodity stocks, such as Vedanta, Hindustan Zinc and Tata Steel. The gamble worked: Over the next few months, these stocks went up.

Inevitably, Patil has had his share of bad calls. After the 2008 financial crisis, when the market rose in

BFE IN NUMBERS

Rs 3,265 Cr

BFE's asset size in October 2013

Rs 13,524 Cr

BFE's current asset size

Rs 10,000 Cr

Assets added between 2013 and 2016.

It is the fastest growing fund in the large- and mid-cap space

Rs 200 Cr

Monthly amount received through SIPs from 12 lakh investors

2012, he bet on GMR, believing that infrastructure as a sector will make a comeback. But the sector was debt laden, and in 2013 the markets fell. Having learnt his lesson, Patil started avoiding heavily debt-ridden companies. More recently, his call on the pharma industry did not work out either because of concerns expressed by the United States Food and Drug Administration.

“Patil continues to manage this fund with ease despite the gradual yet consistent inflow that it has witnessed over the years. His capabilities as an efficient stock picker stand out and a growth bias is evident,” says Kavitha Krishnan, a senior analyst with research firm Morningstar India. While Patil looks at valuations closely, he tends to take tactical bets if convinced of a company’s growth prospects, she adds.



The high growth in assets now puts Birla Sun Life in the classic

position where the size might start affecting its performance. As a fund reaches a certain size, say Rs 12,000 crore, it becomes difficult for the fund managers to beat the markets because its investing options shrink; they have to invest in only a certain number of stocks else the liquidity of the fund gets compromised. In the past, some large-cap funds have found it very difficult to beat the markets because their size did not allow them to invest in stocks that were not in the Nifty 50. However, with mid-caps facing inflating valuations, several fund managers are touting the resurgence of large-caps (see story on page 58) and BFE is well-positioned to take advantage of that.

Patil points out that some of the large-cap funds failed to beat the market not because of their size but due to concentrated sectoral and company bets. Large-cap funds betting on public sector banks, for instance, suffered because the sector was hit by rising non-performing assets. “We don’t have any concentrated bets. And if you look at the size of our fund, it is hardly 25 basis points of the top 100 stocks in terms of free-float market capitalisation,” he says. BFE’s top holdings are HDFC Bank, at 6.42 percent, and Infosys, at 4.65 percent. (See table *Top Holdings*)

Patil is betting on the fact that a large section of the unorganised sector will now move towards getting organised. His big bets include consumer discretionary stocks and companies like Crompton Greaves Consumer Electricals, where Birla Sun Life is the largest stockholder.

Patil’s aim is not size but to build a consistent fund. “For that it is important to have a calm mind. And at Birla Sun Life we try to keep our employees calm, rather than work them up for performance or sales,” says Balasubramanian. “I like to chase performance and would also like to be the No 1 fund in the country, but we don’t want to rush.”

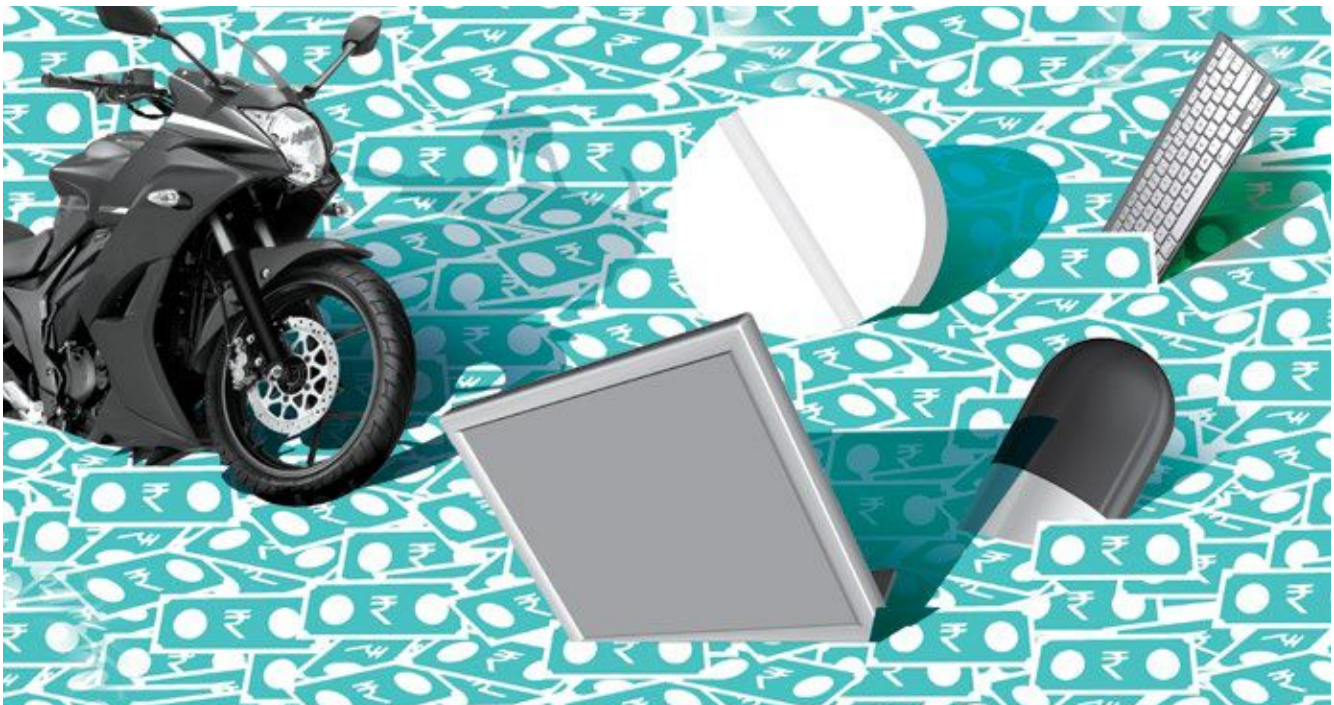
Patil has not made any concentrated bets; he believes many large-cap funds failed because of this strategy



THE TOO-MUCH-CASH CONUNDRUM

SOME COMPANIES ARE FACING A DEVELOPED WORLD PROBLEM—CASH FAR IN EXCESS OF THEIR NEEDS. HOW SHOULD INVESTORS INTERPRET THIS?

BY SAMAR SRIVASTAVA



In 2010, when Ajay Piramal, chairman of the Piramal group, sold the domestic formulations business of Piramal Healthcare to Abbott India for Rs 17,500 crore, investors and industry watchers lauded him for his success. But behind closed doors, many wondered if his group's flagship Piramal Enterprises could judiciously deploy the mammoth cash it had received.

Piramal took his time in deciding what to do with the cash pile and proved himself to be a shrewd businessman. His acquisition of an 11 percent stake in Vodafone India in 2012 and its subsequent sale two years

later yielded returns of 50 percent. Piramal also picked up stakes in the Chennai-based financial services major Shriram Group, in various phases starting 2014, and at a time when the real estate industry is in the doldrums, he's lending money to cash-starved realtors at high rates of interest. To shield himself from a default, Piramal has ensured he has the first call on collateral assets.

Such business acumen, however, is more an exception than the norm. The question of what a company should do with the cash on its books has been a bugbear for those who run cash-rich companies and their investors. "I would argue that all cash belongs

to the shareholders and should be returned to them if a suitable use cannot be found," says Kenneth Andrade, founder and portfolio manager at Old Bridge Capital.

The purists will argue that any cash that cannot be deployed at high rates of return must be returned to shareholders, otherwise it dilutes the company's return on equity or RoE (see table). High levels of cash have until now not been a problem that Indian companies (barring those in the information technology sector) faced. But sluggish growth and low payout ratios (the proportion of earnings a company pays out as dividends to shareholders) have

meant that companies in areas as diverse as two-wheelers, FMCG and IT are sitting on cash they haven't been able to deploy for a while.

So how should an investor interpret the cash on the balance sheet of a company?

Sanjay Bakshi, a professor at the Management Development Institute in Gurugram, argues that it is important to understand the management's psyche. "Promoters with lots of cash often behave like kids in a candy store. The really good capital allocators demonstrate capital discipline by sitting on cash for a prolonged period of time, waiting for the right opportunity."

In some industries, holding on to cash is a good idea. Take the cyclical metals industry for instance, where a prosperous up-cycle is inevitably followed by a brutal down-cycle. Here, companies that sit on cash would be at an advantage as they'd be able to pick up assets for a song when times are hard. Sadly, entrepreneurs in cyclical industries go berserk when times are good. Case in point: Hindalco's acquisition of US-based Novelis for \$6 billion and Tata Steel's acquisition of the Anglo-Dutch steelmaker Corus for \$12 billion. Both companies overpaid for the assets at the peak of the commodity boom in 2007. The current down-cycle has hit them hard.

At the other end of the spectrum are India's IT majors, who have long faced investor flak for their excessive cash reserves (Rs 2 lakh crore by some estimates). Wipro, for instance, had reserves of Rs 44,000 crore and TCS Rs 64,000 crore as on March 31, 2016. They've argued that it is a war chest for a potential acquisition or to survive a sudden change in business model. Anup Maheshwari, chief investment officer at asset management company DSP BlackRock, believes that these companies will privately admit that there are no good acquisition targets on the horizon and stocking so much cash is unnecessary. He

points to global consulting firm Accenture, which returned \$4 billion to shareholders in FY16 through dividends and share repurchases to investors and saw its valuation rise.

"Over the last couple of decades, we have increasing discomfort with the fact that software firms have been hoarding a lot of cash for reasons that have a low probability of materialising. It is misallocation of capital and dilution of capital efficiency. While the dividend payouts have improved, they still fall short of what they could be," says Bharat Shah, executive director at ASK Group, which has assets under management of \$1.4 billion.

In the last two years, two-wheeler companies Bajaj Auto and Hero MotoCorp accumulated Rs 12,750 crore and Rs 7,900 crore respectively as on March 31, 2016, which they are struggling to deploy. Bajaj Auto's RoE has dropped from 67 percent to 40 percent over the last five years. Hero MotoCorp has deployed a part of its cash to expand in the South American market and so its RoE has stayed put at 52 percent. With their steady business models, there is a strong case for them to increase payout ratios, analysts say.


One sector that has opened up its cash chest to investors, through high payout ratios, is FMCG or the consumer goods companies. They are textbook examples of how one must generate cash and return it to shareholders in the form of dividends. Shah argues that a case can be made

for even higher payout ratios. "Those firms that need working capital can be judiciously funded through borrowings, thereby raising the dividend payout ratio and improving capital efficiency in the form of RoE," he says.

It's a compelling argument but Bakshi cautions that some consumer companies are seeing their business model coming under threat from the upstart Patanjali Ayurved and so they will need the cash to shield their turf. It is therefore not surplus anymore.

While valuing companies, a mistake the market often makes is to blindly look at numbers and decide the business's worth. For instance, a company sitting on cash in a cyclical business with an unsteady business model will have a low RoE, but if the entrepreneur is able to make an opportunistic acquisition during a down-cycle, that can change the numbers overnight.

Instead of calculating the company's RoE, investors would do better to calculate the RoE of the business by excluding the excess cash and associated treasury income. If the business's RoE is excellent and the entrepreneur's track record inspires trust, then at the right valuation, you have a winner, explains Bakshi.

By that definition, Ajay Piramal deserves a podium place. Efficient capital deployment, along with long periods where he sat on cash, is something he has demonstrated, and benefited from, through the course of his career. In 1986, his Piramal Enterprises was worth Rs 7 crore. Over the next 28 years, all he raised was Rs 477 crore. But by spotting the right opportunity—he left the family textile business and entered pharma—and then deploying cash efficiently and returning it to shareholders, Piramal Enterprises' share price has clocked a compounded annual growth rate of 34 percent since 1986. Clearly, firms trying to solve their surplus cash conundrum have a precedent in Piramal. 

EXCESS CASH AND RoE

Return on equity is calculated by taking the net profit and dividing it by the sum of the equity capital and reserves (mainly cash). Here's how keeping extra cash dilutes RoE

	Hindustan Unilever	Infosys
Equity*	216	1,144
Cash reserves*	3,791	56,682
Net profit**	4,094	13,681
RoE	102%	23.6%

*Equity and cash reserves in Rs crore as on March 31, 2016

** Net profit in Rs crore for FY16



Impact Businesses are Attracting Investments with Healthy Returns

ENTERPRISES SERVING THE BASE OF THE PYRAMID REQUIRE A HIGH QUALITY OF GOVERNANCE AND TRANSPARENCY

BY VISWANATHA PRASAD



The country's smartphone revolution has helped businesses reach the bottom of the pyramid and vice-versa

Businesses that tap a large number of customers in the lower-income bracket and are established with a clear social objective are increasingly becoming an attractive asset class in India, as they are globally. In India, while rural micro-credit, and then urban

microfinance, saw growth and success over the last two decades, these businesses are now coming to the fore in a growing number of verticals and catching serious investor interest.

Impact investment is not philanthropy. Global data on funds established between 1998 and 2010 show that equity funds investing

in these assets have shown healthy returns that are often less volatile than other assets. There have been years in which impact funds have outperformed normal funds and there have been years when they have lagged; generally, smaller impact funds have outperformed marginally.

Given the efforts of the Impact



Investors Council (IIC), data gathering is becoming more robust in the industry and should help with benchmarking returns; a recent study—by an international consulting firm and the IIC—of impact funds in India is expected to confirm a similar returns trend.

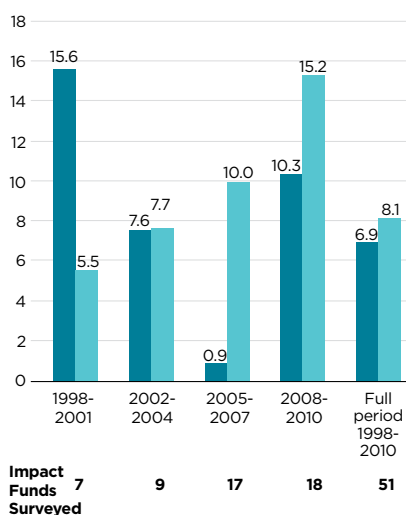
From our experience at Caspian, there is evidence to show that these ventures generate dependable returns while innovatively addressing long-standing social challenges. Having invested over \$100 million exclusively in impact businesses, and completing nearly two full exit cycles, we have built a strong case for continuing investments in such businesses. In recent years, we have seen financial inclusion companies in India perform very well despite several setbacks. They have proven to be resilient with agile and dynamic management. Investors, including Caspian, in small finance banks and non-banking financial companies (NBFCs) that focus on small businesses have seen profitable and healthy exits.

Sceptics could argue that successes in financial inclusion cannot be replicated in other impact sectors. The same scepticism dominated the early years of financial inclusion, in the late 1990s. It was argued that what our extensive banking system could not achieve in over three decades could not be achieved by microfinance institutions either. They did, and quite spectacularly. More recently, we are witnessing early success in lending to small businesses, which is very different from microfinance. While new sectors will face some period of testing, they can also learn from the now-mature financial inclusion sector, and move more rapidly up the learning curve.

Today, impact businesses are on the rise, not just in financial services but also in areas such as education, affordable housing, health care, agricultural technology etc. Over the last four years, we have lent to more

DOING GOOD

Pooled IRR (%) as of June 30, 2014



Note: Pooled IRRs are net to LPs

■ Impact Funds ■ All Funds

Source: Cambridge Partners LLC's report 'Introducing the Impact Investing Benchmark', 2015

than 25 early-stage entities across these sectors, and, after evaluating more than 200 such companies, we are optimistic about the potential for impact in the other sectors as well.

In the Indian context, there are three factors that give impact investing a distinct advantage: First, the size of the market gives these usually low-ticket, high-volume businesses massive potential; second, our entrepreneurs have demonstrated the ability to work at scale by re-engineering products and services in a frugal manner that makes these accessible to low-income clients; third, and perhaps most important, we have a vibrant ecosystem of early-stage investors looking for such entrepreneurs.

However, an important caveat in serving customers at the base of the pyramid in India is that it requires exceptionally high-quality governance and transparency. Business models must deliver real value to clients while satisfying investors. An appearance of

profiteering at the expense of the poor will invite criticism and backlash.

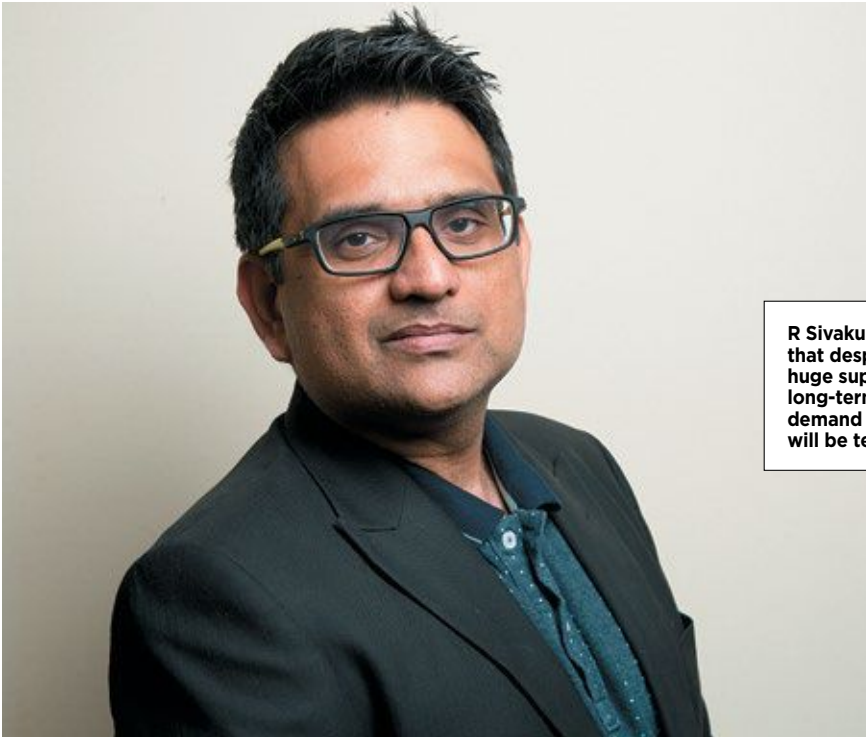
For instance, if someone builds a chain of schools serving the low-income segment and perfects the playbook for running the business profitably, critics could argue that the private school is exploiting households that would otherwise have sent their children to government-run schools for free. The argument that such a profitable chain will attract competition and hence bring prices down has not always worked, as this could take several years in a large and underserved market such as India.

The most successful impact companies in India are those that carefully build corporate cultures and governance rules to benefit both clients and shareholders. The recently publicly-listed Equitas Holdings and Ujjivan Financial Services are examples of such businesses.

In recent years, there has been a concerted effort to measure, report and benchmark the effectiveness of these business models, and companies with strong governance seek out these metrics to guide and discipline themselves. Fund managers who invest in such impact enterprises are also measured and rated among their peers. I am hopeful that these will gain more traction and be made more relevant to the Indian context. So apart from an ability to execute to scale, the enterprise will also need to demonstrate high quality governance and be open to scrutiny, coupled with the ability and stamina to work with all other stakeholders over a sustained period.

Recent reports suggest that large firms, such as TPG Capital and BlackRock, are looking to make significant investments into Indian businesses that serve the base of the pyramid. At Caspian, we expect to invest \$50 million in new investments over the next few years across multiple impact sectors. ^F

—As told to Harichandan Arakali



R Sivakumar says that despite the huge supply of long-term bonds, demand for them will be tepid

demand is that strong. In January, the first auction of this year for long-dated G-secs was partially unsold, showing subdued demand.

In the last few years, 10-year securities have fared better than equities, but this year that may not be the case. In May 2014, at its peak, 10-year G-secs had yields of close to 9 percent, which has now fallen to 6.5 percent. So as bond yields fell, investors made money. [Bond prices and yields are inversely related. When yields fall, investors can sell their bonds in the secondary market at higher prices.] This fall in yields is not going to continue, but you will still have good returns from short-term debt.

Q Why do you say good returns will come from short-term debt?

In India, money will be made on short-term bonds because they are not dependent on macroeconomic factors, such as the value of the rupee against the dollar, inflation, or fiscal deficit. For short-term bonds, two major factors are important: The repo rate [the rate at which commercial banks borrow from the Reserve Bank of India], and liquidity. As long as the RBI is poised to cut rates and there is adequate liquidity in the system, this segment looks attractive.

Q How will demonetisation affect fixed-income assets?

Banks, since they have received a windfall of deposits, are going to be sufficiently funded for the next three years. With one or two RBI rate cuts in the offing, and with easy liquidity, the short-term segment looks very attractive. In the US, investors are talking about yields on 10-year bonds going up to 3 percent [from the current 2.5 percent], and already the spread [difference in yields] between Indian and US bonds is at six-year lows.

‘Short-term Debt is the Best Bet’

AXIS MUTUAL FUND’S **R SIVAKUMAR** THINKS LONG-TERM BONDS ARE PASSÉ AND SEES FUND MANAGERS MOVING TO SHORT-MATURITY BONDS

BY PRAVIN PALANDE

R Sivakumar, head of fixed income at Axis Mutual Fund, feels that India is walking a tightrope as far as its sovereign ratings are concerned. Last November, global ratings agency Standard & Poor’s refused to upgrade India’s credit rating of BBB-, their lowest investment grade rating. Moody’s and Fitch also rate the country at a notch above junk. If India’s sovereign rating is downgraded, then foreign investors are bound to exit.

Sivakumar, 41, who manages around Rs 38,000 crore in debt

assets, says there are some interesting ideas in fixed-income assets for 2017 though the good run in long-term bonds is coming to an end. Edited excerpts from an interview with *Forbes India*:

Q How is the investment scene in fixed-income assets this year?

We have had a very good run in long-term bonds in the recent past. Now the action will shift towards the mid-and short-term bonds this year. The supply of long-term bonds, or 10-year government securities (G-secs), is going to be huge. But I don’t think the

Q Is India's fiscal deficit a serious problem?

The Central deficit is only part of the general government deficit. We need to add the deficits of state governments to the Central fiscal deficit. Seen from this vantage point, there has been little by way of consolidation of fiscal deficit after 2012. Aggregate state fiscal deficit has risen from a relatively benign 2 percent of GDP to 3 percent in the last three years, thus negating the Centre's consolidation.

Fiscal deficits were generally between 8 to 10 percent of GDP throughout the 1990s. In 2003-08 there was a taming of this deficit. Post 2008, there was an expansion in the government deficit. Initially, this was led by the Centre, but recently even as the Central deficit fell, state deficits have widened to keep the general deficit at nearly the same level as in 2011. States are now more aligned for market borrowings to clean deficit finance.

The period of 2003-08 teaches us that if growth returns, the fiscal position improves, since tax revenues pick up. Higher revenue can be used to keep inflationary pressures at bay. On the other hand, if the recovery is delayed and fiscal targets are relaxed, we may face low growth with inflation. India has received substantial foreign portfolio investments, some of which could be at risk if sovereign ratings are downgraded.

Q How will the fiscal situation affect India's credit ratings?

One of the major impacts of high fiscal deficits has been on India's credit rating. For several years, ratings agencies maintained India's credit rating at the lower edge of investment grade. Standard & Poor's, and Fitch have assigned a rating of BBB-, and Moody's a similar Baa3. They have pointed to India's low per capita income, and the government's

weak fiscal position as major impediments to higher ratings. India has the highest fiscal deficit among peer BBB or Baa rated countries.

The strongest indicators for India are its high growth and low external debt, which is why India is rated investment grade even at low levels of [per capita] income. A per capita GDP [nominal or adjusted for purchasing power] of around \$1,500 is low relative to peers; the per capita GDP for similar developing countries is \$9,942. But our GDP [not per capita] growth is around 7 percent, while for similar countries it's around 3 percent.

The indicators of fiscal performance are clearly out of line with similarly rated peers. General indebtedness is similarly weak in the peer group, and compares unfavourably even with lower-rated emerging markets. As a result of the high debt, interest costs eat

companies were using this higher profitability to repay debt. On the whole, the financial structure for many companies was looking better. Post demonetisation, we have to wait and see if there is going to be an impact.

But on a structural basis, if growth continues then the non-AAA segment will look attractive. The spread [between A-rated and AAA-rated bonds] has climbed over the last two years. If the underlying performance gets better, and valuations are in favour, then this segment will become attractive. The spread, as of now, is around 150 basis points. Amtek Auto and JSPL were a shock [both companies defaulted on their interest repayments to bonds holders in 2015 and 2016 respectively] and we saw a re-pricing of credit risk, which has remained elevated since, even though corporate performance has improved. Going forward, I see

There has been little consolidation of fiscal deficit after 2012

up a high portion of government revenue. India's interest burden is by far the worst in its peer group.

The weak fiscal position is clearly a constraint to the ratings, and counters the strengths in GDP growth and low external indebtedness. This poses a real risk of a ratings downgrade to below investment grade. So we are walking a tightrope.

Q What are the investment options for 2017?


Short-term debt is the best bet. Dynamic bond funds that invest in both long- and short-maturity bonds will now look at short-term debt seriously. But you can also look at credit. In the last few years, we have seen a broad improvement in corporate results. Growth was returning and there was an improvement in margins after commodity prices went down. Many

an opportunity in corporate debt.

Q What impact will Budget 2017 have on the debt market?

The fiscal deficit is targeted at 3.2 percent for 2017-18; and at 3 percent for the next two years. The finance minister spoke about reducing the debt-to-GDP ratio to 60 percent over the medium term. With this the government has made it easier for the RBI to look at further rate cuts.

For the bond markets, the Budget was a non-event as documents showed the government's gross borrowing from the market would be the expected Rs 5.8 lakh crore.

One takeaway was the announcement on the buy-back of around Rs 75,000 crore of securities. Usually such buy-backs are in short-term debt maturing over the next 2 to 3 years, and is therefore a positive for the short end of the curve. 



Fixed Income Products Present a Safer Haven

LIQUIDITY IN THE BANKING SYSTEM WILL CREATE ITS OWN DYNAMIC AROUND GOOD QUALITY ASSETS AND ENSURE SAFE RETURNS ON INVESTMENTS

BY NEERAJ GAMBHIR



RBI Governor Urjit Patel. There does not seem to be much leeway for the central bank to cut interest rates aggressively

The world is seeing a move away from free global trade with two big events having unfolded in the recent past—Donald Trump taking charge as US president, and Brexit. This year and the next will see how these two developments play out. Other countries like Germany and

Italy are also due for elections and we will have to see how Europe performs as an economic block over the next few years.

The most important things to watch out for are Trump's policies, and the UK and European Union relationship as the Brexit impact starts to show. It feels that the

world is entering into some kind of protectionist space. The middle-class in the Western world is asking their leaders to create jobs in their own countries. Earlier, the focus of the corporate sector was on diversification and growth: Set up manufacturing plants where optimum results were likely. Now, there could



be constraints on the free flow of capital, especially job-creating capital. If these two experiments (Brexit and Trump's policies) are successful over the next two years, could they lead to more such events in the future? That is the key question.

Countries like China and some in eastern Europe and Latin America have benefited a lot in the past due to the migration of capital towards manufacturing and industrial activity. Some of that flow of capital could get reversed, particularly as large American corporations look to create more capacities in their own country. This is a major worry for the developing world. Whether the free flow of capital would stop and whether they need to create internal demand for their products, especially if they are substantially an export-led economy.

For India, the challenges will be to focus on internal growth, demand and production, and job creation. As America now demands that its companies produce goods within the country, countries like India could impose a similar condition, saying, 'If you want to sell in India, you should produce in India'. In many ways, thanks to Narendra Modi's Make in India campaign, we are already on that path. The challenge therefore is to improve ease of doing business here and bring in capital.

One of the major talking points in recent months has been demonetisation and its impact on the economy. There are three aspects to consider in connection with the issue: First, how much of the informal, black, economy will become a part of the formal, white, economy and what would the impact of that change be. This could result in a better tax-to-GDP ratio for India. Over the past five years, our tax-to-GDP ratio has gone up by 1 percentage point to 11.5 percent. If this figure can be pushed up to 12.5 percent in the next two years, it will help bring down fiscal

deficit to a healthy 2.5 percent. This could then trigger a revision for the outlook for India from a ratings perspective. If the demonetisation-led formalisation of economy, along with the Goods and Services Tax, helps us improve the tax-to-GDP ratio by even one percentage point, it will create more fiscal space for the government.

The second aspect to ponder over is what demonetisation has done for India's banking system and its implications for the fixed income market. The biggest challenge that the monetary policy faced was lack of transmission. The Reserve Bank of India (RBI) was reducing interest rates, but the banks were not willing to pass them on due to a variety of factors. At the heart of it—which got articulated before former RBI governor Raghuram Rajan left—was the fact that while the RBI turned the monetary cycle from a tightening

currency, and so the RBI would have to carry out open market operations (OMO) to create liquidity in the system. Now, that is not required.

The surplus liquidity in the banking system is in a scenario where credit demand is weak. What will banks do with this liquidity? That is a key issue. Banks are likely to wait until March to get more clarity on residual liquidity due to the remonetisation process. If banks don't find enough credit demand for this liquidity, they will have no option but to invest it in the bond markets, either in government bonds, state government- or corporate bonds.

At this point, it appears highly unlikely that credit demand will pick up in six to eight months. One needs to have a good pipeline of projects and the government is investing in infrastructure projects. It will finance them by borrowing

Banks are likely to wait until March to get more clarity on residual liquidity

cycle to an easing cycle, systemic liquidity continued to be very tight. That created a floor for reduction in rates by banks. The RBI then said it would try and normalise the liquidity from a deficit mode.

The banking system today has parked Rs 7.5 lakh crore of surplus liquidity with the RBI, which is a huge change (from a situation of borrowing Rs 1 lakh crore). It is possible that this excess liquidity will come down as remonetisation takes effect over the next couple of months. So, from a cash-to-GDP ratio of 12 percent, we have come down to 6.5 percent. Some economists estimate that we will go back to 9 percent. Even then, the system will have Rs 4 lakh crore of surplus liquidity by March 2018. This is the primary liquidity that got created due to currency coming back into the banking system. In the past, the system used to draw down a lot of

from the banking system, but a lot of the agencies such as the Indian Railways and the National Highways Authority of India have good access to the bond market. So this could improve supply for long-term bonds.

The third aspect is the direct impact on fiscal position, the weeding out of black money, and how it has impacted the government's finances. When demonetisation was announced, one did not expect Rs 3 lakh crore to Rs 4 lakh crore of cash to come back. But now it feels that nearly 90 to 95 percent of the cash has come back into the system. The anticipation of a reduction of currency in circulation has not happened; hence, we don't see a huge impact on the government's fiscal position.

The benefits of demonetisation have to be seen in the first two factors discussed above—the formalisation of the economy, and



liquidity in the banking system and the ability to create more credit.

Going into a bit of technicality, let us assume that we have Rs 4 lakh crore of balance deposits after remonetisation. It is like the RBI pumping in excess liquidity into the system. The current total CRR (cash reserve ratio) requirement is almost Rs 4 lakh crore, which banks need to maintain with the RBI. An additional Rs 4 lakh crore of primary liquidity can support doubling of our banking system's balance sheet without the RBI going in for any liquidity injection. So, if we solve for capital and demand in the economy, India's banking system has the liquidity wherewithal to support massive growth.

But do we anticipate this growth or the credit pick up? Not at this stage.

Coming to interest rates, we do not see much leeway for the RBI to cut interest rates aggressively. Core inflation is still near 5 percent. At a maximum, we see a 25 basis points reduction in rates in February. The borrowing programme for the government next year could pose a challenge. In 2018, since the system will already be in surplus liquidity, we will not see OMO purchases from the RBI. The demand-supply situation for government bonds could be a challenge. Next year, the net borrowing by the central government is likely to be around Rs 4.2 lakh crore and from various states it could be Rs 3.8 lakh crore. It remains to be seen how this will get absorbed and could put some pressure on government bond yields. Because the banking system has enough liquidity and credit demand is weak, we do not expect a blowout in terms of bond yields.

I expect the downward pressure on interest rates to continue. Banks will look for good quality assets to invest in; whether it is through bonds or direct lending to corporates. The pressure on the banking system to collect more

REGION WISE GDP GROWTH

Region	2015	2016	2017*	2018*
World	3.2	3.1	3.4	3.6
Advanced Economies	2.1	1.6	1.9	2
United States	2.6	1.6	2.3	2.5
Euro Area	2	1.7	1.6	1.6
Emerging Markets and Developing Economies	4.1	4.1	4.5	4.8
China	6.9	6.7	6.5	6
India	7.6	6.6	7.2	7.7
Brazil	-3.8	-3.5	0.2	1.5
Mexico	2.6	2.2	1.7	2

For India, data and forecasts are presented on a fiscal year basis and GDP from 2011 onward is based on GDP at market prices with FY2011/12 as a base year

CHANGE IN COMMODITY PRICES

Commodity	2015	2016	2017*	2018*
Oil	-47.2	-15.9	19.9	3.6
Non-fuel (average based on world commodity export weights)	-17.4	-2.7	2.1	-0.9

The average price of oil in US dollars a barrel was \$42.7 in 2016; the assumed price based on futures markets (as of December 6, 2016) is \$51.2 in 2017 and \$53.1 in 2018

CHANGE IN CONSUMER PRICES

Region	2015	2016	2017*	2018*
Advanced Economies	0.3	0.7	0.7	1.9
Emerging Markets and Developing economies	4.7	4.5	4.5	4.4

All figures in percentage

Source: IMF Data: World Economy Outlook Update

*Estimates/ Projections

deposits to sustain their balance sheets will be less. So there will be less reluctance to cut deposit rates.

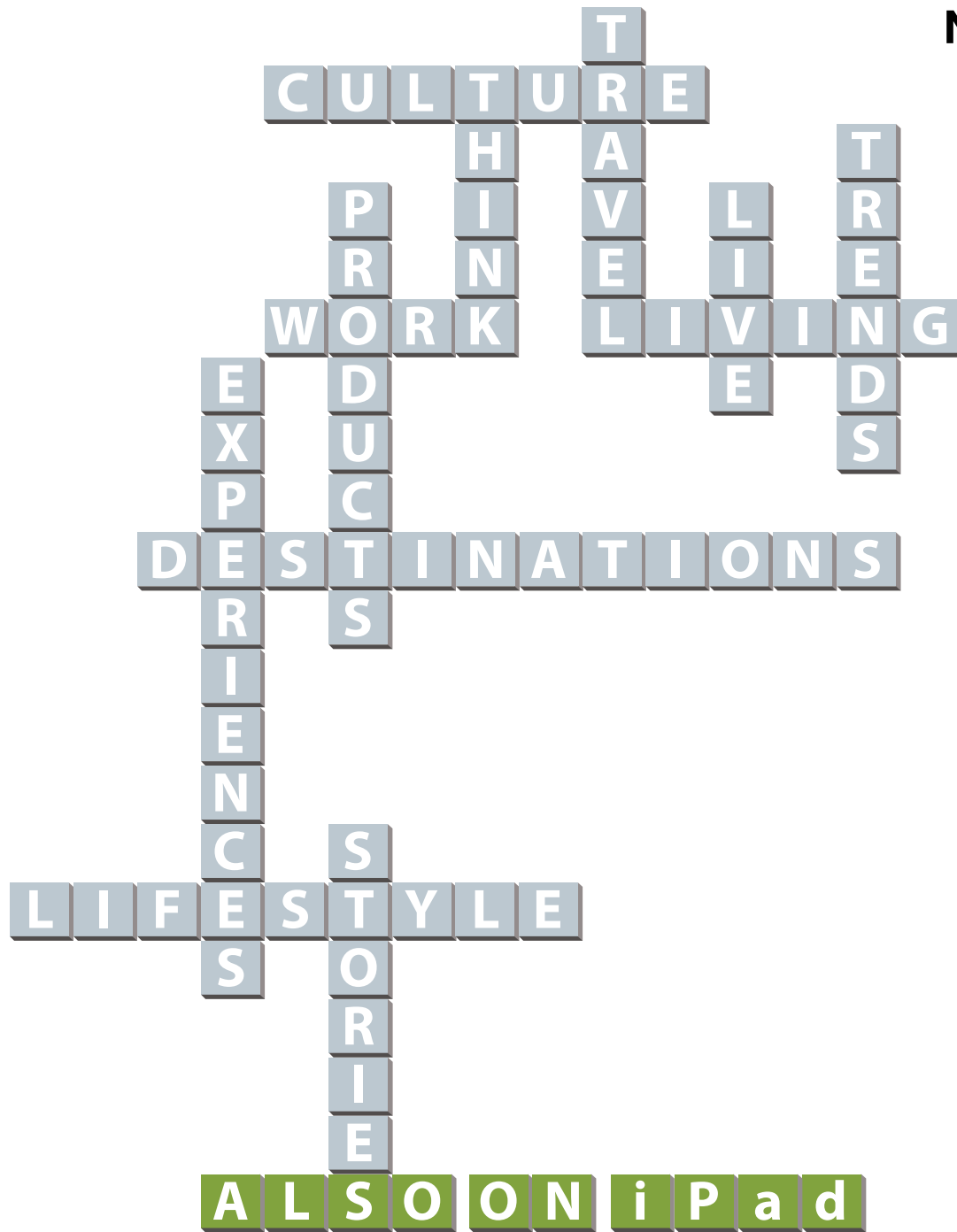
What do we expect investors to do in such a scenario? Fixed income is a relative game, where you play for margin of safety over inflation rate. India's margin of safety over inflation rate is good—if expected inflation rate is 5 percent and one-year bonds give 6 to 7 percent returns, you make 2 percent return in a safe instrument.

Historically, we didn't have this, which is why people invested in other asset classes like gold and real estate. I do not see money chasing real estate or gold now. As the economy formalises, the system will start looking at an increase in financial investments. There could be volatility in equities as India enters the (state) elections cycle. So fixed income products do present a very interesting opportunity for people

who still want relatively safe returns on their investments. I do not expect the type of runaway rally long-term bonds saw over the past two years to continue. But if you see medium-term bonds—corporate paper for up to five years—it is still a good choice. Anybody who is looking for a well-diversified portfolio and looking to invest for 2017 needs to have a fairly healthy attribution to fixed income.

To expect a 15 percent return from equities will be difficult, so if one were to get a 7 to 9 percent return from the fixed income market, on a risk adjusted basis, it is not a bad outcome. My hypothesis is that we will see liquidity in the banking system create its own dynamic around good quality fixed income assets. I am not bearish, but reasonably positive for the fixed income market. **F**

—As told to Pravin Palande and Salil Panchal



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Global Factors Favour a Rise in Gold Prices

CIRCUMSTANCES DRIVING DEMAND FOR THE YELLOW METAL INCLUDE INCREASING CRUDE PRICES AND US-LED INFLATION FEARS

BY JAYANT MANGLIK

Gold is in the news, again. 2016 was a year of uncertainties, which works well for gold prices as investors rush in. Unexpected outcomes in the Brexit poll and the US presidential elections were topped by the most improbable geopolitical alliance [US and Russia] that led to a spike in the price of crude oil; these three essentially formed the basis of the uncertainty. However, this still does not take into account the

likely significant changes in US policies under the new president [Donald Trump], adding to the ambiguity of the global situation. With most parts of the world still struggling on the economic front, it is a difficult situation for most assets except gold. Comparatively, there is less uncertainty in India, but the dynamics that drive gold prices are fundamentally global.

The major factors that affect it—strength of the US dollar and

Federal Reserve System (Fed) interest rates, EU's and Japan's monetary policies, inflation and geopolitics—are all moving parts that combine and determine the price of gold in international markets. For India, it is this dollar-based price of gold, plus the significant impact of the rupee-dollar exchange rate, from which gold derives its rupee price. Taxes such as import duties only add to this. This is because we import 99.9 percent of the gold consumed;



Besides being the ultimate safe investment, gold is also an alternative currency anywhere in the world



local mine production is miniscule in comparison. Since gold is the largest import item value-wise after crude oil, international gold prices affect our current account deficit, which is why gold import is a contentious issue.

Overall, the global factors seem to be playing out in favour of a rise in gold prices in 2017. A weak US dollar leads to higher gold prices. The dollar has risen in 2016, but it seems capped now, partly due to the Trump effect, and may no longer be the safe haven it once was, causing it to trend lower from now. US Fed interest rates have been moved up once, but any more increases will be subject to analysis of economic data, though the Fed keeps making suitable noises indicating an imminent rise.

In the UK, the Brexit outcome has added to doubts about the future of the EU itself. Struggling to kick-start their economies, Japan and the EU have been following a loose monetary policy, which has helped keep a steady demand for gold. Inflation in the US is crawling up, and eventually its fear will also drive gold demand. Rising crude oil prices, engineered by a dodgy alliance between ideologically opposed countries, will accentuate global inflation further, adding to the demand for gold.

Finally, the geopolitical situation worldwide is iffy, with serious potential issues in the South China Sea, the Middle East, Africa, and now in the US. There is also a clear trend towards nationalist politics globally, which could lead to a more inward-looking foreign policy in several countries. All this makes it seem that one must invest keeping a high level of uncertainty in mind, and this is the classic environment that favours investment in gold.

The world's largest gold consumers, India and China, continue on the path of high demand. India has always had a special affinity for gold, a combination of cultural symbolism and social compulsions.

The imposition of 10 percent duty on gold appears to have led to diversion of imports from formal channels to smuggling, but total annual demand remains firm. Investment history too is in favour: An investment made in Indian rupees in gold during almost any block of five years over the last 35 years has yielded positive returns. Also, India and China together account for about 50 percent of physical gold demand.

Demonetisation will only lead to a short-term fall in demand. Continued GDP growth and increasing affluence in India as well as China have accentuated the durability of gold demand. The government is making efforts to curb it, but so far there is no effective solution visible. There have been rumours about the likely steps being taken by the government to unearth unaccounted gold too, but this is a complex issue with ancestral gold accumulated by families over

reduces portfolio volatility because it has a negative correlation with equity, thus becoming a balancing asset. And because it is not owned by any country or government, unlike paper currency, its value cannot be debased at will. In an extreme example, markets can break down and borrowers can fail to pay, but gold is the ultimate safe investment.


So which are the best ways to invest in gold? The most practical way is via ETFs traded on the stock exchanges that allow the investor to hold gold units in demat form; they track the price of gold while being traded in a manner similar to equity shares. Thus there is no risk of theft and there are no locker charges to pay. The units will also show up regularly in the demat account statement. The other popular way to invest is by investing in gold mutual funds. This works best for investors who do not have demat accounts. Many investors do not like

India and China together account for about 50% of physical gold demand

decades, and no real action has been seen so far. As people, our love for gold has proven to be stronger than the government's attempts to rein in consumption. So demand in India remains strong. Consistent physical demand combined with global factors will keep dollar prices of gold high. But in the Indian context, it is the continuous depreciation of the rupee against the dollar that makes it such a sound investment.

The reason to invest in gold is not necessarily only in the quest for returns. In fact, it will probably give lower returns compared to other assets over longer periods of time. But it is a safe haven investment that is also an alternative currency anywhere in the world. It is instantly saleable and the price is transparently accessible everywhere. Besides being a hedge against inflation, it also

to invest in electronic form and prefer solid gold for the money they pay. Most of them buy physical gold bars through the commodity exchanges, which typically sell imported, hallmarked gold bars. Investing through jewellery is not a good idea because the 'making charges' will render the first investment year unproductive even if prices go up.

The only factors seriously ranged against higher gold prices are a possibly strong US economy leading to a strong dollar and low physical demand from India and China. Both seem unlikely for any sustained period. A depreciating rupee will most likely take care of most improbables. That is why gold was, is, and will always be a reasonable investment avenue that should be a part of everybody's asset allocation and investment portfolio in 2017. 



Disruptive Policies May Whet Commodity Demand

REGULATORY MEASURES COULD HELP ATTRACT HEDGERS BACK INTO THE FOLD, ADD DEPTH AND MEANING TO MARKET

BY ANAND JAMES

Commodities have caught the eye of investors again with some registering a stupendous rise last year.

Zinc rose by over 87 percent in one year, while oil and copper shot up by 80 and 33 percent respectively. Gold increased by 8.85 percent. For investors, while an ongoing uptrend is a morale booster (and certainly, last year's performance does tick that box), they may, however, require more indicators to be genuinely interested in the commodities spectrum, especially with trading volumes dwindling as a fallout of demonetisation. So, before someone considers the investment prospects of

commodities, they would look at two things: First, the attractiveness of other assets, and second, the trading and regulatory environment.

Most of the stellar performances of commodities in the last one year have come on the back of steep falls in the previous years, exaggerating the present rise. This would mean that the 20 percent gain achieved by Nasdaq and DAX or the 12 percent gain of Sensex does not pale much in comparison considering the run-up in the previous years. In fact, Dow recently hit the psychological mark of 20,000, suggesting that the Trump rally has legs. This comparison is important as equity

continues to remain a favourite asset class for a majority of investors.

But it is not only equities that have threatened to take the wind out of commodities' sails. For example, while measures by the government to curb fiscal deficit reduced gold imports, gold sovereign bonds gave additional reasons to look away from physical gold or gold futures. The rising appeal of debt and bond markets has meant that commodities as an asset class have been posed a genuine threat, especially during a period when investors have been generally risk-averse. But things may be changing.

In the US, the new government has already kindled expectations of fiscal expansion, which have not only sparked equity market rallies, but also whetted the appetite for commodities. Further, with this, the expectation of higher inflation and higher interest rates in the US has also gone up, which foretells a bear market in bonds. Meanwhile, in India, fiscal deficit and inflation are under control, giving room for further rate cuts, but demonetisation has left banks flush with funds. This means it is not as much a question of cost of funds as it is of a demand offtake, suggesting that the central bank may not be overly enthusiastic in easing rates much. We have also seen property registrations falling post-demonetisation, and it is fair to assume that funds diverted from non-essential property purchases could get diverted to equities or commodities.



Commodities saw a stupendous rise last year. While oil shot up by 80 percent, zinc rose by over 87 percent



Lastly, recent economic data shows that growth had been slowing down even before demonetisation was rolled out. Even without incorporating the impact of demonetisation, the Reserve Bank of India had lowered the GDP to 7.1 percent from 7.6 percent. This could suggest that equities could at best see a slow and acute angled rise rather than vertical.

The second angle is that of confidence in participation, especially in the backdrop of the National Spot Exchange Limited fiasco. In addition, while global commodities have suffered from higher transaction costs due to the imposition of the Commodity Transaction Tax, agricultural futures have been upset by the abrupt suspension of a few contracts. The merger of the Securities and Exchange Board of India (Sebi) and the Forward Markets Commission seeks to iron out the regulatory inefficiencies and could help in attracting the hedgers back into the fold. So, along with a single regulator, we will also move towards better price dissemination, movement of goods and a unified market, with the rollout of GST and increase in digitisation.

Sebi has also sought to amend the Securities Exchange and Clearing Corporation to clear ambiguities and a discussion paper inviting comments on settlement and pricing of options, too, has been issued. The plan to introduce options in commodities has invited criticism over fears that participants may not fully understand the product. This is not without truth. In fact, even though equity markets have seen option volumes soaring, the main attraction of the instrument has been the low investment required and the common investors are usually buyers employing a single-legged approach, suggesting it is normally speculative interest rather than hedging or thematic interest that constitute the chunk of equity option volumes.

However, herein lies the

opportunity for options in commodities. The seasonality of commodities and the directional nature of price moves will ensure that the investors' views are more intelligent and less speculative. And this could augur well for the hedgers. And, of course, commodity options will have the second mover advantage as it can attract a section of traders who are well versed in equity options, which would mean that commodity options may not require as much time as equity options to mature. Yet another consideration is the settlement logic being mooted, which would see options being devolved into futures at expiry rather than cash settled. In a way, this could ensure that the spot, futures and options would be more integrated and the incidents of huge divergences across instruments will be fewer. Allowing options could also be a sign that it won't be long before we see mutual funds and FPIs in the commodities market.


The good performance of commodities has come on the back of steep falls

While all the aforementioned aspects are vital, none of them will make much sense from an investment point of view if a price appreciation is not expected. US President Donald Trump's campaign pledge to revive the nation's economy may be considered as the fuel for the industrial commodities' rally but a lot of it has to do with supply bottlenecks as well. For example, oil is now riding on the wave of the Organisation of the Petroleum Exporting Countries' production cut and is poised to settle into a higher range, of \$60 to \$75 a barrel. Copper is also supported by low warehouse stocks, mine disruptions and a projected delay in new mine supply hitting the market, suggesting that 3-month LME copper has set eyes on the 6,500 to 6,800 mark. Other base metals should follow suit though

nickel may lag on ample supply.

A risk to upsides in these dollar-denominated currencies is the dollar itself, which is expected to continue its ongoing rally on the back of rate hike expectations, as the Federal Open Market Committee is likely to move rates two to three times this year. The rising dollar could also take away gold's glitter, which has, over the past few years, been plagued by the multi-pronged approach taken by India. At present, its value as an alternate currency, as an inflation hedge or as a store of wealth appears threatened. Physical demand looks a bit crippled, owing to uncertainties over gold, but with import restrictions poised to see a revisit and with the rupee poised for 70 and beyond, short but sharp up-moves may not be surprising. Super El Nino, which has been responsible for higher global temperatures and climatic variations in India, is expected to be weak this year and hence a price rise in agri

commodities on the basis of weather extremes is unlikely though the shortage of sugar may be expected to extend through this crop year as well. The rabi crop sowing is understood to be less affected by demonetisation than previously thought and is above previous year's sowing by around 7 percent. Natural rubber has seen recent upsides helped by oil's rally, as well as floods in Thailand, but the continuation of the same vests in the pace of recovery from the global slump in economic growth.

Lastly, the potential for disruptive policies to usher in commodity demand should be weighed in. We have seen that in China; the US has announced several ambitious projects, and post India's bold step of demonetisation, and GST, it will only be fair to expect the unexpected. 



The Land Master

SRINI SRINIWASAN OF KOTAK REALTY FUND MASTERED THE FINE PRINT TO DELIVER HANDSOME RETURNS

BY SAMAR SRIVASTAVA

By 2005, Srini Srinivasan had spent 15 years in Kotak Mahindra as an investment banker and, by his own admission, was getting a little bored. Luckily for him, a career change was just around the corner—one that would result in him entering the real estate industry. It was the time the government started opening up the sector to foreign investors and, overnight, Kotak decided to set up the Kotak Realty Fund to tap into the opportunity. “It was a sector crying out to get organised and when the opportunity came, I jumped into it,” says Srinivasan. “The first thing I did was to hire people who knew something about real estate, i.e. people who knew more than me.”

In the twelve years that Srinivasan, managing director, Kotak Mahindra Investment Advisors, has run the fund, it has managed to deliver returns that place it among the top five funds in India. This is significant as the vast majority of real estate funds launched in the country have gone belly up.

Along the way, Srinivasan, 52, has also had a ringside view of how the industry has developed—how various segments like residential, commercial, IT parks, hotels and warehouses have performed. And while he agrees that



the era of uniformly high returns in the sector is over, he argues that if you pick your investments well, it is still possible to make handsome returns.



We're at Srinivasan's office at Mumbai's Bandra Kurla Complex and he wistfully recounts his first few months at the fund. He was thrust into the business and the first thing he did was to get on the ground. His first investment, in 2005, was an 800,000 square feet office park bought from K

Raheja Constructions in the Mumbai suburb of Goregaon. This was a time when the outsourcing industry was expanding rapidly and demand for office space was robust. But, unlike other funds that bought completed properties, Srinivasan took a risk and decided to buy it when it was just a plot of land and a bundle of approvals. He ploughed in Rs 90 crore (plus Rs 120 crore raised from banks) out of the Rs 457 crore that Kotak Realty Fund's first fund had raised.



Srini Srinivasan, managing director, Kotak Mahindra Investment Advisors, says the office space market is showing signs of a revival

Over the next five years, the fund constructed the building and leased it.

For any fund manager, the proof of the pudding comes when a sale is made. In 2011, the real estate fund exited the investment for Rs 525 crore with 4.4x returns.

Soon after Srinivasan made the office park investment, he realised he had to change course. Investing in offices would no longer work. “This was before the 2008 financial crisis and a lot of money was coming

into India. Much of it went to office parks and there was to be a glut of supply,” says Srinivasan. “After doing our first office deal, we did not do another one for seven years.”

It was during this period that Srinivasan admits that he made an investing mistake, which, till today, is an “albatross around his neck”. In that period, money was flooding into large townships that consisted of apartments, parks, schools, shopping centres etc. These projects had long gestation periods and returns were hard to come by if they were not executed within a specified time frame. The fund made two township investments in Tamil Nadu and the returns were below expectations. This dragged down the returns of the first fund to an IRR (internal rate of return) of 14 percent.

The period post the financial crisis tested Srinivasan as a fund manager. He’d closed his second and third funds, together totalling \$560 million, and had no investible opportunities. “That was when my background as an investment banker came handy,” says Srinivasan. He understood securities laws and the Foreign Exchange Management Act. By now, the government had allowed foreign money to buy up to \$2 billion in debentures. This allowed him to do the first non-convertible debenture (NCD) transaction in Indian realty—he lent the money he’d raised overseas to real estate developers at a time no one was sure it could be done.

According to Srinivasan, a PG Wodehouse buff, the spirit of the law was that a developer could not take the foreign exchange risk. So, the fund bringing in foreign money, converting it into rupees, lending it and accepting the returns in rupees should be above board. He completed a deal, with a guaranteed 22 percent return, with Adarsh Developers in Bengaluru without facing any regulatory scrutiny.

In doing debt deals, Srinivasan came up with an inviolable

principle. Given that contracts are hard to enforce through courts, he ensured that, in a debt deal, he was the only person lending so that if something went wrong he had the first right on assets.

Kotak Mahindra Investment Advisors has managed to raise \$400 million from the Abu Dhabi Investment Authority and Qatar’s sovereign wealth fund by deploying this strategy. Kotak Realty Fund’s second and third funds have logged an IRR of 22 percent.

However, this opportunity has also ended. “There are a lot of copycats in the market now and as rates have come down, so have the potential returns,” says Srinivasan.




As Srinivasan enters his twelfth year of managing Kotak’s real estate business, he’s among the few who have seen the market since it was opened up to foreign capital. He’s also traversed the entire route from a shortage of office space to oversupply.

For now, though, Srinivasan says the market has come full circle and the office space is showing signs of revival. It usually takes five to seven years to complete an office building; the last set of developments that started after the financial crisis are now complete and rented out.

Developers have once again started putting money into new office parks and need capital. Srinivasan, too, is scouting for good deals.

The residential market is a different ballgame. It is still plagued with excess supply and Srinivasan believes it will take a few more years for it to strike a balance. He is hopeful that the recent reduction in interest rates will bring borrowers back. And this is likely to be a more stable demand as years of slow growth in real estate prices have pushed speculators out of the market.

His advice for end users? Go and buy now. “You’ll never be able to time the bottom of the market,” he cautions. 



Where Angels Tread

WEALTHY INDIVIDUALS WITH AN APPETITE FOR RISK ARE INCREASINGLY VIEWING STARTUPS AS A VIABLE ASSET CLASS

BY VARSHA MEGHANI



(From left): Anand Ladsariya, CEO & promoter of Everest Flavours, Ashwin Damera, founder of education portal Emeritus Institute of Management, and Rajesh Sehgal, who recently quit his job at Franklin Templeton to set up an angel investing fund

Imagine investing Rs 10 lakh in Paytm back in 2010. Vijay Shekhar Sharma's then freshly-launched service merely offered mobile phone recharges. It was only a few years later that he started the digital wallet—a service that has seen a mega-boost in business since the government announced the demonetisation of high-value notes in November. Today, that Rs 10 lakh would be worth around Rs 2 crore.

As lucrative as this may be, startup investing is in equal measure risky. What if you had, instead, invested Rs 10 lakh in Flipkart? Sure, you would have seen outsized returns had you exited when the ecommerce player's valuation peaked at \$15.5 billion in 2015. But it has since lost almost 65 percent of its value, having been marked down by various investors. Or, say, you had put your money in a startup that later folded up, like PepperTap, an on-demand grocery service? You'd have lost every penny.

"Startups are seen as opportunistic investments," says Vrinda Mahadevia, who heads private wealth management at DSP Merrill Lynch. According to her, since the global financial meltdown of 2008, traditional asset classes like debt, equity and real estate have given "sub-optimal" returns. Simultaneously, the startup space has been abuzz with activity. "People are excited about startups and want to know more," she says.

Data mined by Nasscom corroborates: There are about 350 active angel investors in India today, a figure that has been growing by a significant 20 percent year-on-year. Alongside marquee investors like Google India chief Rajan Anandan, serial entrepreneur K Ganesh or former Infosys CFO TV Mohandas Pai, India is increasingly seeing less famous but moneyed individuals jump onto the startup bandwagon. This is the HNI (high

networth individual) class.

But given the riskiness of it all, is the excitement warranted? "Angel investing is risky because the investment is illiquid and there's no RoI [Return on Investment] visibility. But it's great fun," quips Anand Ladsariya, a first-generation entrepreneur who set up Everest Flavours, a manufacturer of menthol and essential oils, in 1983. Since 2007, he has invested in over 90 startups across various verticals.

"Ritesh Agarwal sat on the same chair as you are sitting on," he tells *Forbes India* during an interview. "If you invest in a listed company, you never get to interact so closely with the founders," adds Ladsariya, recalling his early investment in Agarwal's OYO Rooms—the hotel aggregating platform that was valued at \$460 million last August. Ladsariya

along somewhere in the middle. "The challenge is to convert those into superstars," he says, adding that a portfolio approach to startup investing is the best way to mitigate risk.

He also advocates the syndicate approach, where a group of like-minded individuals get together to fund a startup. "It further reduces individual risk," he says. As a member of the Mumbai Angel Network and the Indian Angel Network, Ladsariya is able to connect with other investors, keep track of what's happening in the entrepreneurial ecosystem, as well as gain access to promising deals. Entrepreneurs approach him directly, too, to pitch ideas and raise funds. Ladsariya is hands-on with about seven to 10 startups in his portfolio, and, as a self-described "old-economy guy", believes this helps him stay connected to the new economy.

"An angel investor should be able to write a cheque and forget about it."

exited his OYO investment last year, but didn't let in on the returns.

Passion aside, Ladsariya says he sets aside only 5 percent of his funds to invest in startups. "Angel investing is not for everyone. You should be able to write a cheque and forget about it," he says. Mahadevia also notes that her clients with an investable surplus of Rs 75-100 crore have shown an interest in this space, and her advice to them is to invest only 3-5 percent of their kitty.

Ladsariya invests an average of Rs 10-12 lakh in startups, based on the strength of the founding team, the viability of the idea and the market opportunity. An average holding period of 2-3 years — "sometimes longer, if the company is good"—has fetched him returns varying from 10x to 250x. But he's had his share of disappointments too. According to him, 20 percent of startups go belly up, 20 percent turn out to be "superstars", while the remaining 60 percent chug

Ditto for new-age entrepreneur Ashwin Damera. Angel investing helps him keep abreast of technological changes, he says. After selling TravelGuru, his online hotel booking platform, in 2009, Damera set up the Emeritus Institute of Management, a portal that has partnered with top business schools to offer digital diplomas. While most angels at the seed stage invest about Rs 10-30 lakh, Damera bets much higher: He has put in between Rs 50 lakh and Rs 1 crore each, in five startups, operating in sectors ranging from childcare to digital media.

So what makes him bet so big, so early on? "I like to be the first guy in," he grins, explaining that the later you come in, the lesser is the upside. More importantly, Damera makes sure that he knows the entrepreneur on a personal level. "My bet is on the entrepreneur. He has to have the right experience, and he has to be someone



Ankit Agarwal, the Sterlite Technologies scion who has set up a Rs 100 crore fund to invest in startups



I know personally, or someone from my own network,” he says. He doesn’t so much look at the business because it’s usually a mere plan on paper when he steps in. More often than not, those plans change and businesses pivot, he points out, which is “not a bad thing at all” as long as he’s confident that the entrepreneur is someone who will find a way out. “I can’t invest in someone who I think will put his hands up and say ‘I’m done,’” he says.

Of the five startups Damera has backed, he has exited two. And “done pretty well”, he says, without letting in on the returns reaped. Among them was Qubecell, a Mumbai-based mobile billing aggregator that was acquired by US-based payments company Boku Inc in 2013. Damera plays the role of a “sounding board” to the founders of his portfolio companies. “With Rajan [Reddy of Qubecell], we discussed whether it was the right time to exit or not. It helps to bounce off your concerns and just get another point of view,” he says. It also helps that Damera has walked the same path and understands the dilemmas of a founder.

For others like Rajesh Sehgal, angel investing “was a forced thing” that has now turned into a passion. As former senior executive director at Franklin Templeton, Sehgal managed his clients’ investments in listed and

unlisted companies across emerging markets. For compliance reasons, he had to steer clear of personal investments in certain stocks. “So I started looking at other asset classes,” he says. A chance meeting with Sasha Mirchandani of Kae Capital got him excited about angel investing. “It was 2006-07, startups were not that popular, and so we got to cherry pick our investments. It was easy

“You need to invest not just your money, but also your time and effort.”

to get good deals,” he reminisces.

In those early days, Sehgal invested as part of a consortium to lower his individual risk. Today, he makes individual bets of Rs 50 lakh to Rs 1 crore, on average, for a 10-20 percent stake. He continues to be a keen member of the Mumbai Angel Network, through which he has been involved in seed investments of up to Rs 3 crore as part of a group.

He has made 24 investments so far, exited a handful and seen returns ranging from “zero to 10x”. Bengaluru-based missed call marketing startup ZipDial, which was acquired by Twitter in 2015, Mumbai-based online medical store Wellness Forever and Edupristine, an online and classroom-based training provider for the financial sector, which

was later snapped up by US-listed educational group DeVry, are his more memorable buys. “There’s a difference between an HNI investor and an angel investor. It’s easy for an HNI to cut a Rs 20 lakh or Rs 30 lakh cheque. But to really add value, you need to invest not just your money, but also your time and effort,” he says, adding that he assesses an entrepreneur’s ability to execute and a “large enough” market opportunity, when screening potential portfolio companies.

Sehgal recently quit his job at Franklin Templeton and has set up a \$20-30 million fund to pursue angel investing full-time. He believes that such professionally-run funds will help make angel investing less risky and, therefore, more mainstream. HNIs who are excited about the startup space but don’t quite understand it can back such funds, he says. In fact, DSP Merrill Lynch’s Mahadevia notes that, increasingly, wealthy families are setting up ‘family funds’ run by professionals to help them scout for worthy investment opportunities.

Take the case of Ankit Agarwal, scion to Sterlite Technologies. He recently set up a professionally managed Rs 100 crore fund to invest in startups that can add value to the infrastructure technology company’s core business. “We’re convinced that the best ideas won’t necessarily come from us,” he says. Their fund is currently evaluating startups that offer smart city solutions like smart lighting and vehicle tracking, given Sterlite’s role in building such solutions for Gandhinagar—India’s first smart city. “We’re not looking at private equity type of exits. We’re looking to integrate these companies into Sterlite. It’s a win-win for both.”

Clearly, angels tread where others don’t. And, in the end, help entrepreneurship win. **1**



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A Bountiful Mind

Forget the 30 Under 30. If there were an 8 Over 80, it would include **Phillip Frost**—doctor, investor, inventor—who globalised the generic-medicine business and continues to make and give away billions with Buffett-level efficiency

BY MATT SCHIFRIN

For most Floridians, palm trees assume the same status that pigeons do in New York City. They are everywhere, but you barely notice them.

Not for Dr Phillip Frost. As we drive to his office in his white, 7 series BMW, Miami's second-richest man and a 50-year resident can't help but lecture me on more than a dozen varieties of palms sprouting like weeds from the lapses in pavement.

"See the fruit on that one hanging? It's yellow. That's a lady palm. Beautiful, isn't it? And that's a date palm in front. This is a Chinese fan palm—forms a fan like the elephant ear—and that is a sabal palm, flowering. Isn't that pretty?" Then Frost decides to test my retention. "And those crooked ones are what?" After a few seconds he answers his own question. "Coconut palms. Remember I told you coconut palms grow crooked? Royals tend to grow up—these are royals."

In this sweltering city of conspicuous consumption, where

nearly everyone drives with windows rolled up and the air-conditioning and radio blasting, Frost, with his botanical obsession and insatiable appetite for learning, is an anomaly. He is a businessman and an investor, but he is also a scholar, inventor and fervent patron of the arts and sciences. And anyone spending time with the self-effacing octogenarian will readily testify that it is precisely his meticulous attention to seemingly mundane details—like those many varieties of palm trees—that underlies his uncanny ability to spot and capitalise on opportunities.

Frost is a board-certified dermatologist and irrepressible entrepreneur who is also the chairman and CEO of Opko Health, a midsize pharmaceutical and medical-diagnostics company with promising remedies in numerous areas, including chronic kidney disease and prostate-cancer detection. Though his company has revenues of \$1.2 billion and will lose about \$50 million in 2016, he insists Opko will

mean more to medicine than any of his previous endeavors, including drug-industry pioneers like Key Pharmaceuticals, Ivax and Teva Pharmaceuticals. It's a bold statement from a man who played a major role in creating the modern generic-pharmaceutical business and—given that shares in Opko are down 39 percent in the last 18 months—more than a little self-interested.

"What we are building here is a company that will have half a dozen products, each capable of doing more than a billion dollars in sales and some several billion," he says, pointing to a printout displaying overlapping circles that highlight five core Opko markets: Urology, nephrology, genetics, bio-reference and aging/metabolic syndrome. "In the case of human growth hormone, where we are partnered with Pfizer, that is a \$3.5 billion market."

Unlike most of his pharma peers, Frost has the mind-set of a savvy value investor, only it's enhanced by a deep understanding of molecular

**Dr Phillip Frost:
A Renaissance man
and billionaire with
a passion for palm
trees and profits**



THE FROST FOLIO

Through Opko Health, Frost is building a health care-focused Berkshire Hathaway, but like other great investors he finds values in a myriad of industries



CASTLE BRANDS
Goslings rum

tobacco company Liggett Group and commercial realtor Douglas Elliman Realty. Frost is largest shareholder, with 15%.

LADENBURG THALMANN Regional investment bank and financial advisory; 4,000 advisors and \$132 billion in assets. Frost owns 36.5% and Vector Group owns 8.23%.

CASTLE BRANDS Maker of premium liquor, including Jefferson's whiskey and Goslings rum. Frost owns 33.5% and Vector 8%.

COCONUT GROVE BANKSHARES Miami-Dade's oldest bank; Frost owns 24%.

COGINT Formerly Tiger Media; a cloud-based data and analytics company focussed on marketing and risk management. Frost owns 29%.

BIOCARDIA Formed by Frost's Sorbonne roommate, Dr Simon Stertzer. A clinical-stage company using stem cells to repair cardiac muscle after a heart attack. Frost owns 32.7%.

DRONE AVIATION Florida-based maker of drones for law enforcement and military. Frost owns 14%.

ARNO THERAPEUTICS Developing antiprogesterins for breast, endometrial and prostate cancers. Frost owns 9%.

ZEBRA BIOLOGICS Attempting to make generic versions of antibody drugs—like the bestselling rheumatoid arthritis drug Humira—that could be better than the original. Opko owns 29%.

QAO PHARMSYNTHESZ Russian developer and marketer of new drugs in Eastern Europe. Opko owns a 17% equity interest.



NEOVASC

The Tiara is a minimally invasive treatment for a common form of mitral-valve disease.

CHROMADEX Maker of ingredients for nutritional supplements. Frost owns 14.6%.

VBI VACCINES Developing a technology platform to design vaccines for hepatitis B, Zika and brain tumours. Opko has a 25% equity interest.

MABVAX THERAPEUTICS Clinical-stage cancer immunotherapy. Frost and Opko have an estimated 5% interest.

MUSCLEPHARM Nutritional supplements. Frost owns less than 5%.



DRONE AVIATION

The WATT drone has an electric-tethered aerial platform (ETAP).

RXI PHARMACEUTICALS Ladenburg took it public in December. Developing an RNA interface to prevent skin scars. Opko has a 19% equity interest.

COCRYSTAL PHARMA New antivirals (hepatitis C, flu, Norovirus); Frost and Opko own 23%.

SEVION THERAPEUTICS Developing antibodies against difficult targets; treating cancer and immunological diseases. Frost and Opko own 20%.

NEOVASC Canadian maker of specialised cardiology devices. Frost owns 22%.

biology and a penchant for swiftly striking opportunistic deals. His office desk is stacked with pitchbooks and proposals, as well as dual flat-panel Bloomberg screens, with dozens of stocks on his watch list blinking green and red. “Phil has an incredible vision of where to position himself within health care,” says Oracle Partners’ Larry Feinberg, a veteran hedge fund manager who has owned shares in Frost companies since the 1990s. “He views Opko as his holding company. It is his Berkshire Hathaway of health care.”

Through Opko and other entities, Frost has strayed far from health care. He has big stakes in dozens of public and private companies, ranging from Vector Group, owner of tobacco company Liggett and commercial real estate broker Douglas Elliman, to Castle Brands premium spirits and investment firm Ladenburg Thalmann & Co. He has invested in a slew of promising startups, such as a data-fusion company, a drone surveillance provider and BioCardia, a biotech developed by his college roommate, renowned Stanford Medical School cardiologist Simon Stertzer, which is trying to find a way to use stem cells to rejuvenate hearts damaged by heart attack.

Tireless at age 80, Frost is working on his fifth billion in net worth, but he is giving it away nearly as fast as he is making it. The Frosts have no children, but he and his wife, Patricia, through their hands-on approach to philanthropy and hundreds of millions in funding, are on a mission to transform Miami from a city best known for its beaches, golf courses and trendy Latin-Caribbean cuisine into a mecca for art and serious science.

Frost’s Horatio Alger story contains a healthy dose of serendipity. He was born in 1936, in the midst of the Great Depression, the third son of a shoe-store owner from South Philadelphia.

A stellar student from the start, he attended Philadelphia’s selective Central High School and the University of Pennsylvania, majoring in French literature. After his junior year in Paris studying at the Sorbonne, he had a chance meeting with a former schoolmate at Penn’s cafeteria, alerting him to a scholarship that was being offered to a new medical college in New York City called Albert Einstein and available to graduates of his high school. Frost applied and won a full scholarship. Einstein quickly established a reputation as one of the top med schools in the country.

His decision to specialise in dermatology also contained an element of chance. As an undergrad he developed an unsightly wart on his elbow that prompted him to go to a Penn faculty member who happened to be doing research on cantharidin, otherwise known as Spanish fly, for an application to remove warts.

“I was interested in a specialty that would permit me the time to reflect and do [other] work. I knew that surgery could never be for me because you’re tied up in operating rooms most of the time. And I needed the freedom to do things,” Frost says. Fortuitously, the professor who cured his wart later offered him a postgraduate residency in dermatology at the University of Pennsylvania.

After his residency and two years as a lieutenant commander in the US Public Health Service at the National Institutes of Health, Frost landed a spot on the faculty of the University of Miami’s dermatology department in 1966. Seeing patients and teaching med school weren’t enough to satisfy his insatiable curiosity, so at night he invented a disposable tool for taking skin biopsies (still used today). During negotiations to sell his invention to Miles Laboratories in 1969, Frost met a young lawyer with a silver tongue named Michael Jaharis.

Frost’s friendship with Jaharis blossomed into a business partnership after the lawyer decided to quit his

corporate job to help Frost build a business around a novel ultrasound device used to clean teeth that Frost had purchased. He had a thriving dermatology practice, with patients that included Jackie Gleason, who once filled Frost's mother's hospital room with roses after he discovered they were convalescing in the same hospital. By 1972 he had become the chairman of dermatology at Miami's Mount Sinai Medical Center.

That same year, another chance meeting: At Miami's airport, while waiting to board a plane to New York, Frost ran into a high school classmate who was a top executive at Key Pharmaceuticals, then a struggling drugmaker focussed on cold remedies. "By the time we got to New York, we agreed to put our little company, which had some cash and some inventions, together with Key, which was public," Frost says in his apartment in New York's Pierre hotel, overlooking Central Park. "They had great technology, but they didn't have the people to recognise what they had. They had the first controlled-release technology for drugs."

Key Pharmaceuticals was Frost and Jaharis' ticket to serious wealth. After reformulating its main asthma drug, which had initially been combined with a cough suppressant, into an asthma-only remedy with a controlled release, Key's Theo-Dur became the nation's best seller. Key followed up with the first nitroglycerin slow-release patch remedy (Nitro-Dur), used to treat heart disease, also a big hit. Ultimately Schering-Plough purchased Key Pharmaceuticals in 1986 for \$836 million. By then Jaharis and Frost were on *The Forbes* 400. Frost, age 50, had a net worth of at least \$150 million (\$330 million in current dollars) and was Schering's largest individual shareholder.

But instead of retiring to collect dividends, Frost blazed a trail in the nascent generic-drug business with another company he formed, called Ivax. In the early 1990s, when the

low-margin generic-drug business was getting bad press for products of questionable quality, Frost presciently bought up companies and expanded internationally. Again he used connections to get an edge. In 1994, for example, Frost bought one of the Czech Republic's largest pharmaceutical companies, known as Glaena.

"I had heard that an important Czech pharmaceutical company was being privatised by the government," Frost says. "One of my friends from Colombia, South America, had an apartment in Miami, and he had a Czech friend in Toronto." So Frost made some calls and found out that Novartis and two other European

“Phil’s a face guy. He doesn’t do meetings over the phone. It’s part of his calculus to get a gut feeling about people.”

companies were interested in bidding, but Frost's Miami-Toronto connection was able to arrange a last-minute meeting with Vaclav Havel, then the president of the Czech Republic. "I told him, 'Look, if you do a deal with us, we'll guarantee you'll keep at least 900 of the 1,200 employees,'" says Frost, who shrewdly noticed that the politician's primary goal was saving jobs, not getting top dollar for the assets. The Czech deal, which cost Ivax only \$50 million, included prime real estate, subsidiaries in all the former Soviet Republics and \$20 million in the bank.

"Phil turned Ivax from a domestic drug company to a global generics-pharmaceutical company," Feinberg

says. "It wasn't subject to just the vagaries of the US [market]. It really had strong positions in both generic and proprietary pharmaceuticals throughout the entire world. It became a very valuable asset."

In 2005 Israel's Teva Pharmaceuticals paid \$7.6 billion for Ivax, making Frost a billionaire. For the first time.

Command central for Frost's empire is a shimmering 15-storey glass-and-steel building he owns at 4400 Biscayne Boulevard in downtown Miami. Lining the walls of the 15th-floor executive suite, below an electronic ticker tracking Frost stocks, are beautifully framed photographs of Art Deco Miami Beach circa World War II from negatives Frost rescued when the city's Bayfront Park library was being demolished in the mid-1980s. Just outside Frost's office is a glass-enclosed "atrium", where he lunches daily with senior executives, including Dr Jane Hsiao, a brilliant chemist with an MBA, whose late husband, Charles, co-founded Ivax with Frost. Hsiao is a vice chairman of Opko and ranks 46th on the *Forbes* list of Self-Made Women, with a net worth of \$320 million. Another regular lunch mate is Steven Rubin, a former mergers-and-acquisitions lawyer who joined Frost in 1986 after Frost sold Key and started Ivax. Rubin is Frost's deals guy, sitting on the boards of many of his companies. A newcomer to the inner circle is CFO Adam Logal, Opko's accountant and Frost's liaison to Wall Street. The conversation is almost always about deals, which flow into Frost headquarters on a daily basis. Often company executives and others are invited to make presentations.

"Phil is a face guy," Rubin says. "He doesn't do [meetings] over the phone. He'll be like, 'I just read you have an idea. Why don't you come down on Friday and see me?' I think that's part of his calculus to get a gut feeling about people."

One of Frost's CEOs is Richard Lampen, an ex-banker who worked for Salomon Brothers in the go-go '80s and now runs regional broker Ladenburg Thalmann on the 12th floor.

In the aftermath of the dot-com bubble in 2001, Frost bought into Ladenburg, then a tired 120-year-old investment bank known mostly for risky small-cap IPOs and cold-calling brokers. Frost has since financed its impressive recent growth. In the last 10 years revenues have climbed from \$30 million to \$1.1 billion, and a series of regional brokerage acquisitions has swelled the firm to 4,000 financial advisors with client assets of \$130 billion.

"Thanks to Phil, we punch way above our weight," Lampen says.

One executive who spends a lot of time at Frost's staff luncheons these days is Dr Charles Bishop, the man in charge of Rayaldee, a newly approved drug that boosts vitamin D, which Opko is aiming squarely at a segment of the \$12 billion market for treating chronic kidney disease. Opko acquired Bishop's startup in 2013. Frost had heard about the promising remedy during a casual lunch with a Toronto pharma exec. Hours later Bishop had a voice mail from Frost.

"I returned the call immediately," Bishop recalls. "He says to me, in classic Phil fashion, 'Can you get to Miami in three hours?'"

Given that it was nearly Thanksgiving, Bishop persuaded Frost to wait a few days. "We had prepared to give him a full presentation... I came with my slide deck. We got through four slides and Phil says, 'That's enough of the slide presentation. Can we talk about a deal?'"

That sort of impatience is a Frost deal-making hallmark. He had done his homework and had decided that kidney disease was going to be a big business for Opko. Chronic kidney disease afflicts some 25 million people in the United States, including 9 million or so in stages 3 and 4.

Opko's Rayaldee, which analysts forecast could surpass \$500 million in sales in the US alone, has the first product approved by the FDA to correct vitamin-D insufficiency through a one-a-day capsule with an extended-release formulation.

Not all of Frost's deals have been warmly received on Wall Street. In 2015 Frost announced he would pay \$1.47 billion for Bio-Reference Labs, one of the largest full-service clinical laboratories in the US, known for its expertise in genomics and genetic sequencing. Opko's stock plummeted by more than 50 percent within four months of the announcement and has begun to recover, by about 20 percent, only in the last few months, with Rayaldee's launch.

"People always doubt Phil because they don't understand what he is doing... But he makes it work."

One promising Opko diagnostic that will leverage Bio-Reference's network and marketing is Opko's new 4Kscore blood test, which accurately assesses the risk of prostate cancer for men with elevated PSA (prostate-specific antigen) readings. Frost says, "If you have an elevated PSA, the tendency was to be biopsied, a painful procedure associated with infection and bleeding. And of the biopsy results, maybe 60 percent turn out to be negative." He notes that there are an estimated 30 million PSA tests per year in US, and perhaps 25 percent of the results are elevated. Opko's 4Kscore test costs \$1,900.

"I wasn't a big fan of his purchase of Bio-Reference labs," money manager Feinberg admits. "But people

always doubt Phil because they don't understand what he is doing. They short his stock, but eventually he makes it work. He doesn't give up. He has the tenacity and capital."

David Gibbes Miller, 23, has never met Phillip or Patricia Frost, but the couple have opened doors for him that he never could have imagined. A Tallahassee native, Miller was an Eagle Scout and straight-A student in high school, but his family couldn't afford to send him to a prestigious private college without significant debt, so he took the scholarships he was offered to Florida State University, where he majored in religion with a pre-med focus. At FSU Miller excelled, graduating summa cum laude in 2015. During his senior year he organised and hosted an undergraduate conference on bioethics at Florida State.

Upon graduation Miller was awarded Frost's version of the Rhodes Scholarship. The programme, called Frost Scholars, sends 10 public-university students from Florida and four from Israel to Oxford each year to conduct research and earn a master's degree in a STEM discipline.

At Oxford Miller studied medical anthropology with an interest in epidemiology and public health, completing a dissertation in the process. Another Frost Scholar in his cohort was Kaitlin Deutsch, 23, a graduate of the University of South Florida. Deutsch was recently awarded an NSF Graduate Research Fellowship and is at Cornell getting her PhD in entomology, studying native bees in an effort to boost their ability to pollinate plants. During her year at Oxford, where she earned a master's in biodiversity, conservation and management, she made an important discovery soon to be submitted to a science journal: The so-called deformed-wing virus, a scourge decimating honey bee colonies, may have jumped species to another pollinator insect, the hoverfly.



The Frosts are on a mission to make Miami a science mecca. Their new Museum of Science will feature a 500,000-gallon aquarium and a planetarium

“The [Frost] scholarship set me up in a way that allows me to shoot much higher,” says Miller, who is now a predoctoral fellow at the NIH and will soon apply to top medical schools.

Ultimately Miller and Deutsch both hope to return to Florida. Nothing could make the Frosts happier. “We are hoping that everyone is going to come back that graduated from Florida,” says Patricia, a former teacher and current member of the board of governors of Florida’s State University System.

“We want to make Miami more of a technological and science centre. When we came here, people thought of Miami as anything but that,” Phillip says, noting that the couple’s recent \$100 million gift to the University of Miami was made with this in mind. “We feel that it begins with education. We need to start at the top with the universities and even the graduate students. The fastest way to achieve this is to attract a cadre of top-notch scientists, starting with

chemistry and molecular biology.”

According to him, part of that \$100 million will go toward developing an institute of chemistry and related sciences. “There will be a new building and new professors,” he says. “We hope all this will encourage new startups.”

The Frosts have signed Warren Buffett and Bill Gates’ Giving Pledge, but they are the opposite of so-called “chequebook philanthropists”.

In fact, they are so hands-on that they have generally refused to hire consultants even for their world-class art collection, which has included American Abstract Expressionists, French Impressionists and old masters like the Flemish painter Jean-Baptist de Saive. The couple have endowed the University of Miami’s School of Music and Florida International’s Art Museum, and Patricia is regularly in touch with their directors, even helping select architects for small remodeling jobs.

“We are involved to the nth degree


at the new science museum,” she says, referring to the \$45 million of the Frost’s generosity that has gone into the construction of Miami’s new 250,000-square foot Patricia & Phillip Frost Museum of Science. After significant delays, the new facility, which has a planetarium and a massive multilevel marine aquarium, will open in March 2017.

In the elegant breakfast room of the Frosts’ grand Venetian palazzo built on Miami’s exclusive Star Island using imported Italian limestone, Patricia serves homegrown tropical fruits, all freshly picked from their expansive gardens and greenhouse, which include more than 150 varieties of palms that Phillip tends to. “The museum will try to emphasise basic science as illustrated by what is happening in this microclimate,” he says. “We want the young people to have an experience so that when they walk in they are awestruck. Then, as they spend more time there, it inspires them to work in the sciences.” 

Distilled Succession

Whiskey is a premium call for Albert Lee as he guides Taiwan family's food and beverage group

BY JOYCE HUANG

A photograph of Albert Lee, a man with glasses, wearing a light blue striped shirt and a blue and white striped tie. He is holding a glass of whiskey to his lips and drinking. He is standing in a distillery with many wooden barrels stacked on shelves in the background. The barrels have labels that say "KING CAR" and "2010".

Nice work if you can get it: "I'm just a wage earner who toils for my father," says Albert Lee



Barriers to producing a renowned whiskey in Taiwan were numerous. For one, when the Lee beverage clan sought to touch alcohol, even to brew beer, they were rebuffed by the government in 1995. It didn't want to part with a state monopoly.

Patriarch Lee Tien-Tsai persevered through legal changes, ultimately shifting his aim to a single-malt spirit. By then, it was 2005, and the product was named Kavalan, in honour of the pioneering tribe of the springwater-rich Yilan area, a 40-minute drive from Taipei.

Unlike Scottish single malts that carry similar price tags, Kavalan would not require 12 or more years of ageing in the barrel. The warm and humid conditions in Taiwan speed up that process to half or less the time. That's an inventory advantage many quality liquor producers would envy. But, in that environment, a thirstier "Angel's share"—the amount of whiskey lost due to evaporation, several times as much as in a cooler, drier place—negates much of that edge and prompts bottle tabs beginning near \$100 at retail.

But Kavalan gets that price, thanks to a string of international prizes and growing consumer recognition. (A recent score: Chuck Rhoades, the lead prosecutor portrayed by American actor Paul Giamatti on the Showtime series *Billions*, avers that "The Taiwanese do it better than the Scots these days", after sipping a \$200-plus Kavalan Solist Vinho Barrique.) Its undisclosed global volume is still thought to be a small fraction of the traditional single-malt names (Macallan, Glenfiddich and Glenlivet), and 60 percent of sales occur at home, but the name is being splashed from glossy magazine ads to Times Square billboards.

It may be, however, that the real secret to Kavalan's early success is not so much the water or the air or even

an in-house Scottish consultant but the founder's perfectionist son. Albert Lee Yu-Ting, turning 52, has made the whiskey his personal obsession since he was promoted to vice president of the family group in 2003.

Taiwan had joined the WTO trade pact the year before, opening up export possibilities. That's vital to high-end whiskey-making, although the home island is no piker when it comes to per capita consumption of the stuff (*see table*).

King Car (the name roughly translates from Chinese words meaning "to drive wealth") knew its way around other beverages. The patriarch started it in 1979 to sell root beer. That didn't work, but, by 1982, he acted on a Japanese mentor's advice to create Mr Brown, a canned coffee brand. (That's the first foreign surname locals pick up in their mandatory English classes.) A decade later, he owned the Taiwan market and was exporting. In 1998 came Mr Brown cafes, now totalling 50 on the island. They tend to be in secondary business districts where Starbucks doesn't locate, but the properties were acquired opportunistically and have appreciated greatly in value.

As an overall food conglomerate, unlisted King Car (exceeding \$500 million in claimed latest-year revenues) is big enough to put Lee Tian-Tsai on Taiwan's 50 Richest list at nearly a billion-dollar net worth. Albert, as CEO since 2013, after his dad suffered a minor stroke, has plenty to occupy his time (younger brother Yu-Cheng has charge of the group's horticulture/aquaculture arms), but Kavalan remains his special interest. "Five gold medals in six years—that's an unmatched track record in the world," he says from the group's European-style whiskey castle, which has attracted a million visitors a year.

Then he catches himself as he turns to his staff, discouraging them from complacency. "Let's continue to lie low and keep an eye on what

Set 'Em Up, Joe

Even though its population is a third of that of the UK, Taiwan is not far behind the Brits in Scotch consumption

COUNTRY	2015 VOLUME ¹
US	1,718
FRANCE	812
UK	770
TAIWAN	681
GERMANY	410
CANADA	314
JAPAN	237
ITALY	199
AUSTRALIA	148
NETHERLANDS	143

¹In thousands of 9-litre cases of single-malt Scotch.
SOURCE: The IWSR 2016.

others are up to. Then catch up, or we will be left behind," he adds.

With their chosen barrels and yeast formulas, Kavalan spirits, aged four to six years, taste as smooth and mellow as their sophisticated peers, with a fruitier character. Demand is out there. The immediate challenge has been capacity for volume growth. "In the next decade or two, we will spare no effort to rack up sales," Albert vows. A year ago, dad gave his go-ahead "within minutes" for a \$30 million copper-pot-still expansion, which will see annual production double to 10 million bottles this year to begin filling global connoisseur demand over the next decade or so. That expanded capacity should translate into a retail value of \$1 billion, with the wholesale share assuming a more meaningful part of King Car's revenues.

At home, Kavalan is still overcoming hurdles to woo single-malt amateurs, who wine and dine guests with aged imported whiskies "for fear of losing face", says a rival brand's sales agent in Taipei. Kavalan has its own domestic retail outlets, since the label is too pricey for many of Taiwan's liquor stores. Albert plans to double their number to 100 in the next three years.

The International Wine & Spirits Record forecasts that, globally,

whiskey will overtake vodka to become the world's second-largest spirits category by 2019. IWSR analyst Tommy Keeling says Kavalan's trajectory could have it replicating the success of the Japanese whisky Suntory, which was driven by quality, international accolades and media visibility, particularly in the film *Lost In Translation*. Kavalan can "rely on the exoticism, the novelty of being a Taiwanese brand and a rarity, and try to appeal to consumers in some other ways, not just price", says Keeling.

A liquor notable for patient distilling fits with Lee Tien-Tsai's business character over the decades. "He is more into the hard-earned money—one or two bucks at a time for a long, long time," Albert observes.

King Car's strong cash flows have provided a sufficient capital cushion to see Kavalan through a prolonged payback period, says Allen Tsai, founder and executive director of Taiwan Institute of Directors, which studies the succession of family businesses. "King Car is the legacy dad passes on, but Kavalan will be the brainchild of Albert," Tsai says.

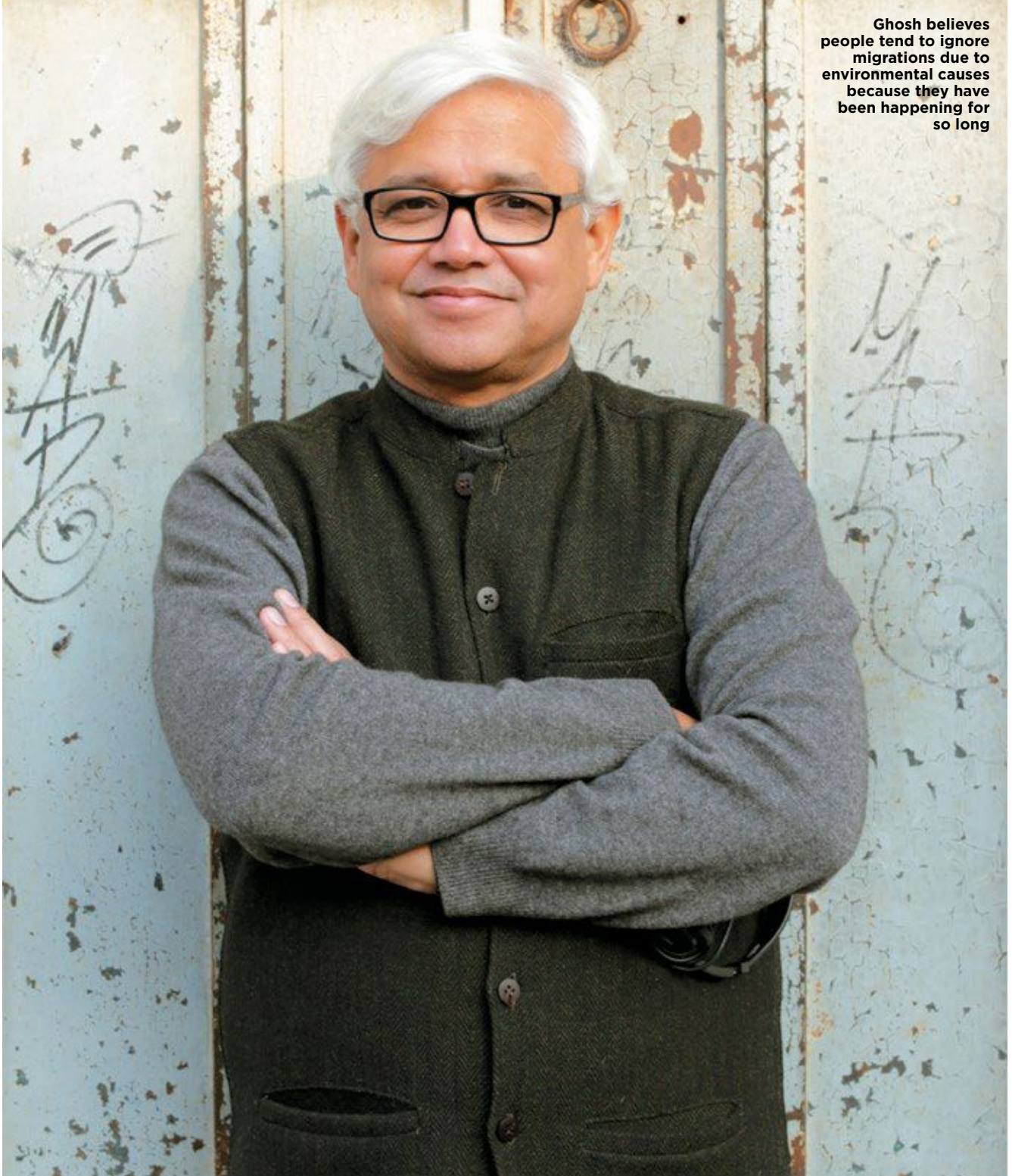
The No 1 son exhibits a modest streak ("I'm just a wage earner who toils for my father") but showed decisive leadership early on. In 2008, Tsai recalls, King Car was among Taiwan producers facing a melamine milk crisis (in its instant coffee blends, for example), and the son quickly executed recalls at a minimum loss of \$1.5 million.

Albert honours the entrepreneurial ethos of his father's generation and is said to have faithfully avoided scion-slacking. Says one of his close friends, Khieng Puong, husband to the youngest daughter of late Formosa Plastics founder Wang Yung-ching: "Like his father, he's a workaholic, who always shares rides with dad to work at an early hour no matter how late he schmoozed the previous night."

Sounds like the right recipe for a budding whiskey baron. **T**

RECLINER *Amitav Ghosh talks about homelands, and those forced to leave*

Ghosh believes people tend to ignore migrations due to environmental causes because they have been happening for so long



‘The World is Going to Have to Rethink the Existing Refugee Categories’

Author Amitav Ghosh talks about political convulsions, his affinity for Bengal and the literature that emerges from it

BY JASODHARA BANERJEE

❑ **The land your characters inhabit—whether it is the Gangetic plains in *Sea of Poppies*, the Sunderbans in *The Hungry Tide*, or the Burmese forests in *The Glass Palace*—has formed an integral part of your narratives.**

Is this something you consciously include, or does it happen by itself?

It’s a difficult question to answer because to some degree it is conscious because you have to find out details of that kind. But it’s really conscious in the sense that it is part of a plan; these are things that interest me.

❑ **In your stories, there is also a lot of movement where characters are concerned; they, very often, traverse different geographies. How does this come about?**

That part of it is really a reflection of my own history. I have always been travelling and living in different places. And also it is the experience of my own family, which was originally from Bikrampur near Dhaka in Bangladesh. They left a long time ago, before Partition; some came to India, some of them went to Burma. These are reflected in my work.

But I have to say that when I started writing, to write about these movements was kind of unusual. Specially in the India context, people

usually wrote stories that were set in one town or village or province. Very few people were writing about Indians who were migrating, going elsewhere, were displaced. Now migration is almost mainstream.

❑ **A place like Bengal has historically seen so much displacement because of climate and topography. Do you think migrations such as these grab less attention than those caused by political reasons such as civil wars?**

That’s an interesting question, and one that I also think about. The whole landscape of Bengal has always been unstable. It’s always been shifting. In some way, people have adapted to that; they have historically always been able to move. And we see this reflected in Bengali literature also. I think you are right that people pay less attention to it for that reason.

❑ **Do you think migration due to environmental causes does not attract attention because it has been happening for so long?**

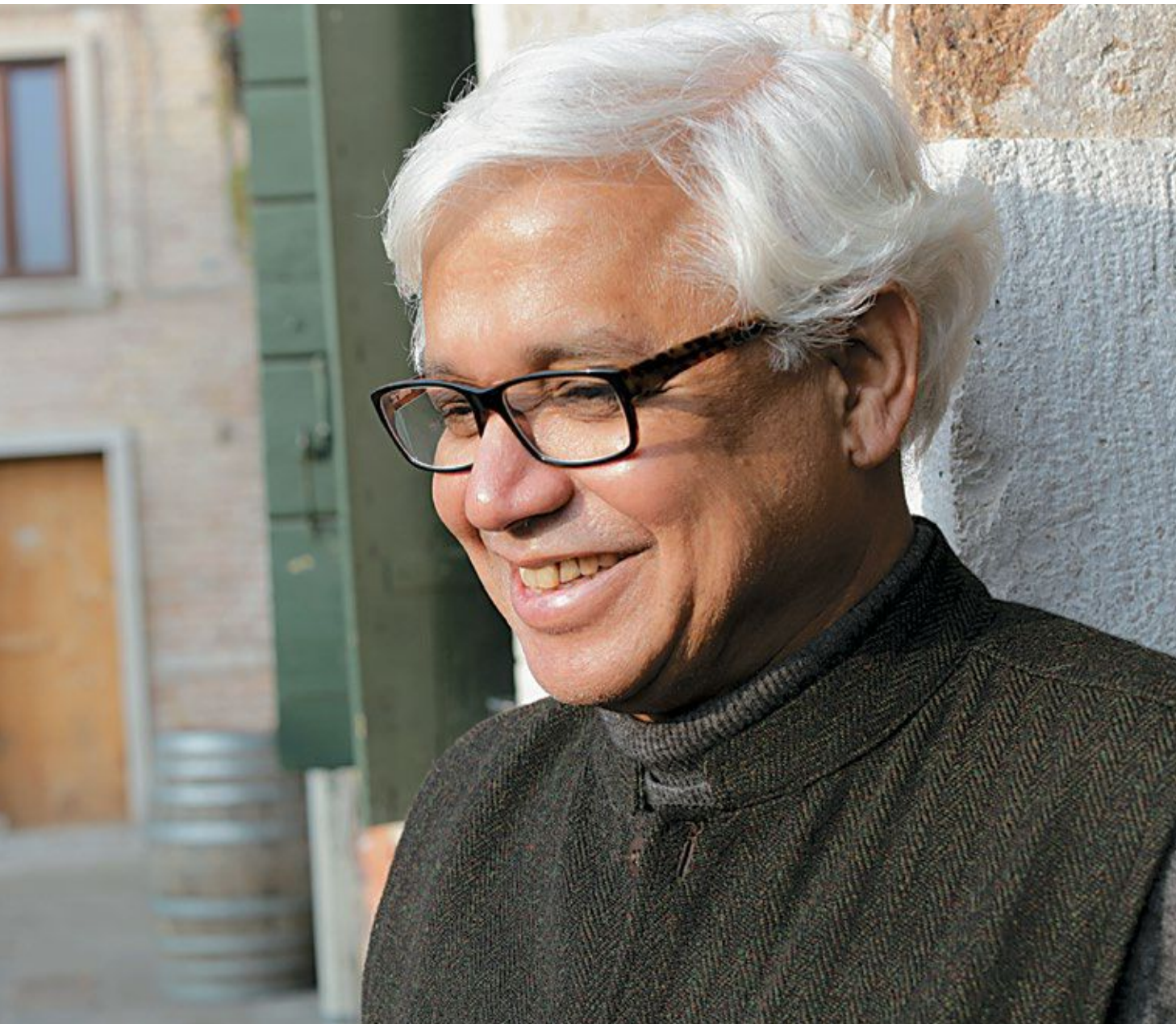
Yes, definitely. And it is so unfair the way it is prioritised right now. In Europe, they now classify people who are moving because of environmental causes as economic refugees, as



Author Amitav Ghosh says while there are many fascinating aspects to the writing process, he usually finds the beginnings the most difficult to write

opposed to political refugees. So, it’s like political refugees are good, economic refugees are bad. In fact, often the circumstances are such that you can’t make that distinction. In the Syrian case, in the case of Darfur, you can’t really make that distinction between what is economic and what is political. I think the world is going to have to rethink all these categories.

Because, you know, the world is acting as if the only people migrating out of Syria, or through Syria, are Syrians. You look at the photographs,



and you can see that a large part of them are South Asians. It's strange how this whole thing is playing out.

Q Is it Western thought processes, then, that label refugees in certain categories—thus compartmentalising them—and do not recognise the links between these categories?

You can't really blame the Western governments; look at out how our governments have responded. After all, in West Bengal, which should, of

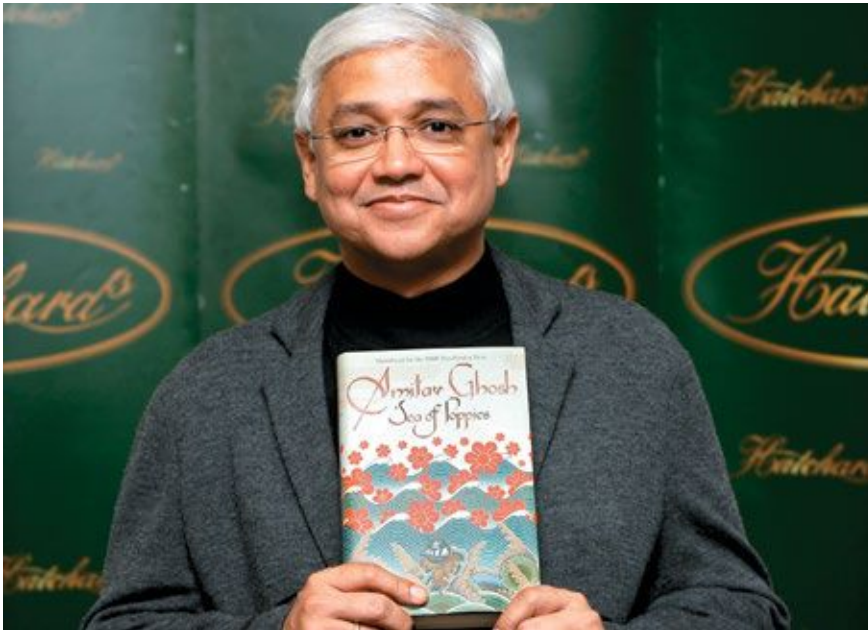
all places, be sensitive to refugees, look at what happened in Marichjhapi. They [the government] massacred refugees there; all of them were then moved out to Dandakaranya [now in Chhattisgarh]. Our governments have not been particularly sensitive to these issues either.

[In 1979, the West Bengal government forcibly evicted thousands of Bengali, Hindu refugees, who had fled persecution in Bangladesh, from a cluster of islands called Marichjhapi in the mangrove

forests of the Sunderbans. Although the exact number of casualties were not determined, several hundred refugees are believed to have died from police firing, starvation—following a blockade—and disease. Ghosh's novel *The Hungry Tide*, set in the Sunderbans, is against the backdrop of this incident.]

Q You have studied and lived mostly outside Bengal. What affinity do you feel for it?

Bengal was always where I went



Ghosh's book *Sea of Poppies* was shortlisted for the 2008 Man Booker Prize. The government honoured him with a Padma Shri in 2007

back to from various places. I can't account for it, but I do know that it plays a very large part in my thinking. Not just its landscape, but also its literary tradition. I think my affinity for water, especially.

Q Yes, in almost all your books water—whether it be rivers, seas, deltas and estuaries—form an integral part of the landscape, and the lives of the characters.

That definitely comes from Bengal. I find myself very much interested in the ways of life that come out of water. As soon as water appears, the question of regions and boundaries appears irrelevant. Water is fluid, people cross it. In his book [*Crossing the Bay of Bengal*, 2013], historian Sunil Amrith estimates that migration across the Bay of Bengal historically has been the single largest anywhere in the world.

Q Would you say the fact that you have not really lived in Bengal affects your writing about the region?

I think it would. The fact that I don't live there all the time definitely gives me a distance, which is, in some ways, good, and in some ways not so good.

It's a strange thing... so little has been written in Bengali about the Sunderbans. It is a subject that is almost absent from Bengali imagination and literature. Even among Bengalis who love forests and the environment—they love temperate forests, they like mountain forests, they go up north, around Darjeeling. In their imagination, those are forests—and the Sunderbans are not really a forest.

Q How are the Sunderbans changing? One chain of argument claims that there is greater connectivity that brings the islands closer to the mainland; another says that increased development is ruining the ecosystem?

“Often, circumstances are such that you can't make that distinction [between economic and political refugees].”

There is an element of truth in both of those claims. But it's actually more under threat from climate change than anything else. The populated parts of the Sunderbans have been devastated, most by cyclone Aila [in 2009]. People have left in large numbers; it's contributing to all sorts of things in so many ways that we don't even begin to see. For instance, the sex trade in Kolkata. If you go down the country's western coast, you will see that the entire working class of the region is now Bengali. Most of them are from the Sunderbans. You will see this in Goa, for instance.

Q Which part of your storytelling process fascinates you the most, and which part torments you the most?

The beginnings are the worst.

Q Do you have the end in sight even before you begin?

No, no. The end appears somewhere, as you are struggling along. But the beginnings are what I find really difficult. I find that around 20 percent of the time I have invested in each of my books go into the first 10 pages.


Q What is it that you struggle with? The settings, the characters?

It's all those things. But I think the most is what the writer calls the voice: The way in which to tell the story; finding a form, and a style that is adequate to the story.

Q What is the fascinating part?

There are so many. Discovering what your characters are going to do, where they are going to go.

Q Does it surprise you to see that you have written something that you did not see coming?

Oh, all the time! That's one of the great pleasures of writing. Different writers write in different ways. For me, it's not as if I sit down and have it all mapped out, and go from point A to point B. I start the journey, and then there's nothing but surprises. 

‘Millennials Look for Rich, Authentic Spirits with a Story’

Indians have a refined alcohol palate and hold great potential as a market for complex drinks like cognac, feels **Alexandre Quintin**, the international brand ambassador for Rémy Martin

BY KATHAKALI CHANDA

In its pedigree, Louis XIII can very well match up to the French emperor it's named after. Produced by the house of Rémy Martin, this cognac is steeped in history, and its production in the finest craftsmanship. A 30 ml peg of this spirit starts at Rs 10,000 in India and its most premium variety can set connoisseurs back by a few lakhs. Alexandre Quintin, the international brand ambassador for Rémy Martin and a Louis XIII aficionado himself, was recently in India to get a feel of the market. Edited excerpts from his interview with *Forbes India*:

Q What makes a good cognac?

The main ingredient for good cognac is a white grape called Ugni Blanc—they make up 90 percent of the drink—that comes from the Grande Champagne territory of the Cognac region in France; [from] anywhere else and it will be called just brandy. These grapes are grown on chalky soil that helps the roots of the vines go very deep and extract all the minerals. Once the grapes are harvested, generally in September and October, we take out the juice, which then naturally ferments into wine in a week and a half. The wine



THE CRYSTAL DECANTER

Louis XIII is poured into a unique, handmade crystal decanter, with a golden neck, that was crafted as a replica of a metal flask discovered at the site of the Battle of Jarnac in 1569. It carried the fleur-de-lys, a symbol of French royalty. It was bought by Paul Émile Rémy Martin in 1850 and reproduced in glass to hold the best eaux-de-vie that they had. Paul Émile also named the alcohol Louis XIII as a tribute to the French king, who authorised the trade of eaux de vie under his reign.

is distilled twice, after which we get what we call eau de vie, a clear liquid with 70 percent alcohol. Once it's distilled, the cellar master (Baptiste Loiseau is the current one) does a blind tasting of different eaux de vie. The ones that have the aromatic potential are considered for Louis XIII (pronounced Louis Trez) one day. They are put into really old French oak barrels for ageing, a process that gives out unusual spicy, oaky or fruity and flowery notes.

Q Why is Louis XIII such a premium product?

About 99 percent of the eaux de vie that we make don't make the cut for Louis XIII. As Olympic champions [are] among human beings, only the best are considered for Louis XIII. A variety of eaux de vie (the number could go up to 1,200), the youngest of which is at least 40 years old, will then be blended and aged, not just for 5 to 10 years like traditional cognac but for up to a century. You need four generations of cellar masters to craft one full decanter of Louis XIII.

During ageing, the alcohol evaporates bit by bit every year, leaving behind a liquid that is highly concentrated and aromatic. In the

early years, it smells of peach and apricot but, slowly, the aromas emanating from Louis XIII are much more evolved than your regular cognac. Once it's aged up to a hundred years, Louis XIII gives you aromas that are extremely rare. For instance, myrrh, dried

roses, plum, honeysuckle, tobacco, fresh mint, leather, chocolate.

Q Cognac, as a drink, is typically associated with the elderly generation, not the youth. Is that a perception you are looking to change?

It's a perception that is changing fast because the patterns of consumption are changing. Cognac is no more just a drink to be had after dinner, while smoking a cigar. You can have it for lunch, for dinner or even while hanging out with friends at a pub or nightclub. Also, that cognac



is a drink for the older generation is a perception local to countries like India and even France. If you visit the US or China, you'll see a lot of young people, millennials in particular, drinking Rémy Martin. They don't just drink it straight, like the more mature generation would



Alexandre Quintin, the international brand ambassador for Rémy Martin, says Indians appreciate brands with true heritage

do. They drink it on ice, in long drinks mixed with ginger ale, tonic water or sophisticated cocktails. Millennials are looking for rich, authentic spirits with a story behind them and cognac is beginning to appeal to them.

❶ How mature is the luxury alcohol market in India?

In the last few years, the luxury market in India has been growing at a compounded annual growth rate of about 25 percent. According to a report by Assocham, the market was expected to hit \$18.6 billion by 2016 from the current \$14.7 billion.

For Rémy Martin cognacs, it's early days in India. However, during my visit, I met a lot of passionate individuals from the luxury

“That cognac is a drink for the older generation is a perception local to countries like India and even France.”

hotel industry and wines/spirits aficionados, and was pleasantly surprised at the level of expertise of young sommeliers, chefs and epicureans. There is a thirst for knowledge and appreciation for brands with true heritage.

The country also has many active wines and spirits clubs and an increasing number of high net worth individuals (HNIs) who travel across the country and world every week searching for unforgettable gastronomic and alcohol experiences. The fact that Rémy Martin's brand vision and promise are linked to encouraging individuals in their quest for achievement as well as celebrating successes might resonate well with our clients.

We are confident there is a great potential for Rémy Martin here in the mid to long term.


❷ What do Indians like to drink?

In terms of spirits, it seems that Indians historically enjoy brandy in the south and whiskey in the north. This love for aged spirit is extremely encouraging for iconic cognacs like Rémy Martin. Why? Because it means that most consumers have a refined palate that can appreciate the unique aromatic intensity of our cognacs, their delicate flowers' notes, their rich fruitiness or their spicy, oaky character.

❸ What is the right way to drink a cognac?

If you are drinking your cognac straight, it should be ideally from a glass with a top as wide as the bottom. This plays a big part in your tasting as it ensures that the aromas aren't trapped inside. Then, pour just a bit of cognac into the glass and swirl it around to coat the insides. This helps in eliminating any unwanted smell and, when you pour the cognac inside, the aromas will explode onto you. This apart, the right way to drink cognac is your own way. There are no set rules and it's a free game when it comes to enjoyment.

❹ What are the right food pairings to go with cognac?

For the finest cognacs, you have to look for the finest ingredients that reveal every facet of the liquid. For example, we pair Louis XIII with caviar from Bordeaux or the Baltic seas. The slight saltiness of the caviar complements the fruity notes of Louis XIII. Or the blue lobster. Indians will enjoy the pairing because there is a hint of spice to it. Wagyu or limousin beef which goes with the oldest aged cognacs of Louis XIII; they bring out all the spicy and oaky notes. The last one, my favourite, is the jamón ibérico or pata negra ham from Spain. It's a ham that comes from pigs that eat only acorn. The effect you have on the palate is something we call umami, which binds together all the senses in perfect harmony. 

A Fresh Slice of Orange County

Hobie owner **Mark Christy** charts a new course with the opening of a luxury hotel in his hometown: The Ranch at Laguna Beach

BY ANN ABEL

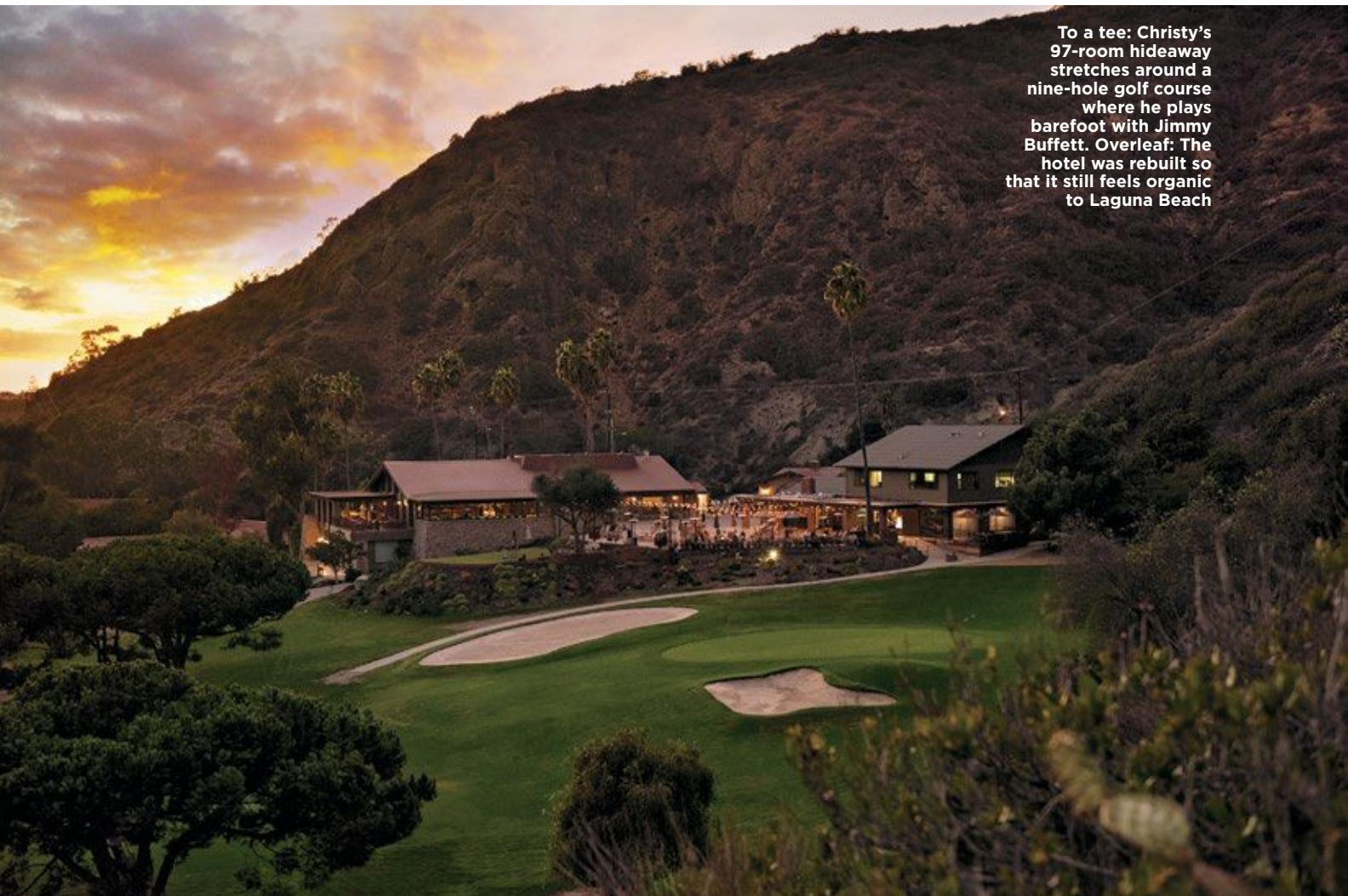
Mark Christy was seven years old when his father taught him to play golf on Ben Brown's course in Laguna Beach, California. As a lot of locals did, the Christy family celebrated good report cards and big promotions at the clubhouse restaurant. Some 20 years later, on that same course, the nascent entrepreneur formed a friendship

with a partner on a few of his real estate deals, Hobie Alter, the inventor of the Hobie Cat catamaran, and a pioneer of contemporary surf culture.

Now 57, Christy has been the owner and president of Hobie Sports for 20 years, ever since Alter recommended that he be the one to acquire it from the previous ownership. He is now also the proud owner of that golf course, the resort that it's part of

and 87 acres of gorgeous canyon land that he calls the "Yosemite of Laguna Beach". Over three years and an eight-figure investment after he closed the deal in 2013, Christy has reimagined and reopened the property as The Ranch at Laguna Beach.

"I've had a life full of serendipitous opportunities," Christy says. "This is one of them." While this is his first hotel project, he's been involved in



To a tee: Christy's 97-room hideaway stretches around a nine-hole golf course where he plays barefoot with Jimmy Buffett. Overleaf: The hotel was rebuilt so that it still feels organic to Laguna Beach

local real estate and restoration for decades and says, “Anything vintage Laguna Beach is the holy grail for me.”

His dream deal hinged on hometown boosterism, personal connections and patience. During the 1990s, Christy began talking to the owners, Violet and Ben Brown, about the property, asking that they reach out to him first if they ever wanted to sell it. They said they would but didn’t, selling instead to the development company behind Montage, the luxury beachfront resort just across the street. Montage had ambitious, not entirely popular plans for developing the Browns’ land but was never able to get them off the ground. “They didn’t get the [local] reverence for the place,” Christy notes. “I said, ‘When you decide to sell, call me.’”

Nearly a decade later, Christy was playing in a local ping-pong tournament quarterfinal when a fellow competitor, who was the centre fielder on his softball team and happened to be a higher-up at Montage, told him to forfeit his match. “This conversation needs to happen right now,” Christy recalls him saying. And so, sitting on a wall with beverages in red plastic cups, the two men hashed it out and closed the deal with a handshake.

“I know other firms made better offers,” Christy says. “But they honoured my deal because they knew I was the right answer. That I’m somebody who would want to preserve this place for another 60 years.” He adds, “I have no exit strategy. I want to give this place to my kids.”

Creating it turned out to be a big undertaking. The name The Ranch at Laguna Beach is drawn from the property’s history—the homestead, which was built in 1871, was originally a watermelon farm and became known locally as “the ranch”. The inn opened in 1962. “To say the buildings were frozen in time would be a gross understatement,” Christy says. “It was held together with toilet paper and spit. Some rooms still had rotary phones.”



Christy and his engineering team stripped the hotel down to the studs and essentially started over, reconfiguring the buildings to encompass 97 guest rooms and bringing everything up to code (with up-to-date phones). “Our philosophy was do it once and do it right. We took utilities underground because I don’t want to look at wires. We went for greatness in terms of making this old girl look sharp.


“My job was to not screw it up,” Christy says. “It’s so magical. It felt that way to everyone. I wanted to polish the diamond that was always there. I wanted it to look and feel like it had grown out of the canyon rather than plopped down there. There’s an organic feel to it.”

His sister, Laurie Alter, with whom he co-owns the popular Tuvalu Home Environment furnishings store in Laguna Beach (and the wife of Hobie’s son), designed the rooms to have the vibe of a small beach town, including rustic rope chandeliers, patterned tile backsplashes and vintage-looking distressed-leather couches.

Christy’s goal was to have the “coolest” hotel in Laguna Beach. He chose the word carefully; the coolest hotels, he says, aren’t full of traditional signifiers of luxury but are more soulful, more connected to a place. To that end, The Ranch at Laguna

Beach features things you wouldn’t normally see in a southern California hotel, like a sand volleyball court, a bocce court and a scalloped saline pool that’s original to the property (and the expected niceties, like a spa, morning yoga and a farm-to-table restaurant).

Even though he’s been spending 60 hours a week fine-tuning The Ranch (on top of his day job at Hobie), Christy tries to play golf every Friday at Ben Brown’s, which he has made more environmentally friendly by installing a recycled-water system. (He is a founding member of the Laguna Canyon Conservancy.) He walks the nine-hole course barefoot, carries just three clubs and two balls and doesn’t keep score. “We appreciate the game. It’s about being in the moment,” he says, noting that deer often graze alongside the fairways. One of his current barefoot buddies is Jimmy Buffett, who told him that he wouldn’t want to play any other way anymore.

“It pays to be outside the box,” Christy says of his serendipitous serial entrepreneurship. “I’ve never owned a box. This restoration has been a three-year labour of love and respect, with incredibly long hours and virtually no time off. But it follows one of the mantras of Hobie Alter himself: ‘If it’s fun, it’s never work. And if it isn’t fun, it’ll never work.’” 

Car: Mercedes-Benz GLC300 4MATIC Coupé

BY RISHAAD MODY



Like its bigger brother, the GLE Coupé, Mercedes-Benz's GLC Coupé was designed to take on competition from BMW, in this case the X4. But thanks to its smaller proportions, it doesn't look as brash and bulbous as its rivals, or even its bigger brother. The smooth lines work well on the GLC Coupé, although I'm not so sure about the slightly kitschy chrome eyelids over the tail lamps.

The sumptuous cabin is similar to the GLC and C-Class, and it feels like being in a scaled-down S-Class. The dash comes in a choice of wood trims, with a piano black scheme as standard. Multiple leather options are available as well. The sloping roof naturally eats into the space at the rear, but the drop in headroom shouldn't be a problem for most customers. The rear seat is quite comfortable for two passengers, but the middle passenger will be burdened by the high transmission tunnel. Boot space is 491 litres, but is quite shallow.


Internationally, Mercedes-Benz is offering three diesels, two petrols

and a petrol hybrid. The diesels are not being considered for India, and the hybrid uses a radar-based system, which means it is out of contention as well until the government allows such technologies. Of the petrols, Mercedes is planning on offering the more powerful 300 4MATIC model, which uses a 2-litre turbo petrol good for 245 PS and 370 Nm. This is the same engine from the GLC petrol available in India, and it's a strong performer. Mercedes claims a 6.5-second 0-100 kmph run.

Matching the quick performance is a surprisingly agile and involving chassis. For a vehicle so tall, the Coupé attacks corners with little

body roll and immense grip from the full-time, all-wheel drive system. Both the chassis and the steering feel sharper than the standard GLC. The brakes also offer strong performance. If there is one thing missing, it would be steering feel. The rack is quick and precise without any vagueness but doesn't offer any feedback from the road.

In developed markets, the GLC Coupé can come across as an unnecessary niche vehicle. You could have the regular GLC, while there are a host of similarly priced cars within the Mercedes range that offer a sportier experience. India, however, is different. Our love for SUVs is only trumped by our love for standing out from the crowd. There's plenty of money here, but few want to spend it on a flashy sports car that our roads don't support. The GLC Coupé tries to address this with a mix of looks, performance and SUV practicality.

The Coupé will come in this year and we expect a price tag of about Rs 65 lakh. This will make it the most affordable of its kind in India. 

TECH SPECS

Type	Inline, 4-cylinder turbo petro
Power	245 PS @ 5,500 rpm
Torque	370 Nm at 1,300-4,000 rpm
LxWxH (mm)	4,732x1,890x1,602
Price	Rs 65 lakh (est. ex-showroom)
+ Looks, luxury, dynamics	
- Style not for all, launch some time in 2017	

My London

There is much to learn from this cultural melting pot



Walking around London is the best way to explore the city, but if you are taking a cab, avoid the rush hour

I travel to London for both work and leisure. I am in the capital of England once every six weeks. My son spent several years there in school, college and later as a trainee. I have a lot of fond memories of the city. The first thing I notice, of course, is the weather. I also love the vibrancy of the place and the multicultural experience; it is a melting pot of cultures. You hear so many languages, even when you get off the aircraft.

Recommendations

My favourite hotel is the Taj 51 Buckingham Gate. The service there is excellent, and when you travel as much as I do, you want the feeling of being home away from home. It is also where I conduct most of my business meetings. The Four Seasons is nice as well, as is The Dorchester.

I have many favourite restaurants in London; some big, some small. My current favourite is the Asian cuisine at Novikov, and China Tang; Zuma,

which serves Japanese cuisine, is fabulous too. Quilon—it serves Indian food—of course is a standard favourite. The rasam there is a must-have. I enjoy walking through the theatre district, and trying out different cuisines. I also like the Ping Pong chain of dim sum restaurants.

Getting Around

To travel within the city, I usually use London's black cabs. I have my favourite driver for airport transfer whose services I have been using for at least two decades now. I am not familiar with the Underground, although my children Rishabh and Paridhi are well-versed with it.

After Hours

A nice play or a musical is the best way to recharge yourself. I truly recommend this. It's an eye opener;



CYRIL SHROFF

also, it's a lesson on passion—to perform to perfection day after day. I love the theatre, and the post-theatre dinners at small restaurants in the city's theatre district. During a slightly longer stay, you can visit a museum

or an open-air theatre. Walking around London is the best way to soak in the city; I even took a boat ride down the Thames, and it was fun.

Although I don't shop much, the best shopping experience is at Harrods. The chocolates, the cheese—what else does a man need?

Tips

As a visitor, you should try to avoid the rush hour. It is worse than Mumbai's. Also, enjoy London with both your mind and heart. It has a lot to teach. **F**

Cyril Shroff is the managing partner of Cyril Amarchand Mangaldas (Co-ordinated by Jasodhara Banerjee)

It is time we recognised the huge contribution that migration has made to the economic growth of this country.

—JEREMY CORBYN



A simple way to take measure of a country is to look at how many want in. And how many want out.

—TONY BLAIR



The happy and powerful do not go into exile, and there are no surer guarantees of equality among men than poverty and misfortune.

—ALEXIS de TOCQUEVILLE



I think that people should come to Australia through the front door, not through the back door. If people want a migration outcome, they should go through the migration channels.

—TONY ABBOTT



A nation ringed by walls will only imprison itself.

—BARACK OBAMA

Recognise yourself in he and she who are not like you and me.

—CARLOS FUENTES

The truth is, immigrants tend to be more American than people born here.

—CHUCK PALAHNIUK

No one leaves home unless home is the mouth of a shark.

—WARSAN SHIRE

History in its broadest aspect is a record of man's migrations from one environment to another.

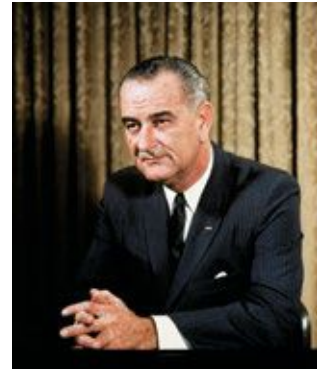
—ELLSWORTH HUNTINGTON

Where asylum is used as a route to economic migration, it can cause deep resentment in the host community.

—DAVID BLUNKETT

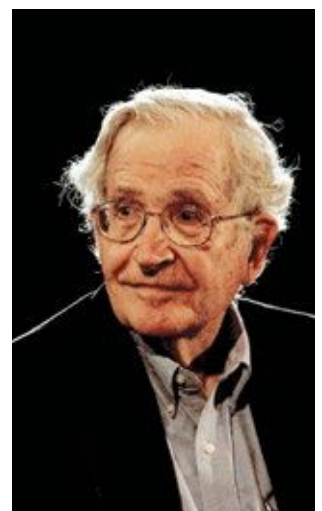
The land flourished because it was fed from so many sources—because it was nourished by so many cultures and traditions and peoples.

—LYNDON B JOHNSON



Now, where are [Mexican illegal immigrants] fleeing from? Mostly from Central America, where they're fleeing from the results of our policies.

—NOAM CHOMSKY



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