REPORT CARD – APRIL 2016 MONTHLY MEET

The April monthly meet took place at The Grand Macgrath Hotel, Off Brigade road, Bengaluru. A networking and tea session preceded the session.

Suresh from the Knowledge Management (KM) team welcomed the CoFP'ians and guests for April the monthly meeting. He briefed the gathering the agenda and structure of the program.

1. The Economic Indicators - From an Advisor's Vantage by Narendra K N
2. Investing in Real Estate - Heads up
3. Special General Body meeting

Suresh introduced the first speaker Narendra K N which was followed by Naredra's talk on Economic Indicators.

Speaker's Introduction: Narendra is a lifelong learner, reader. He runs Prokens Mutual Fund Distribution Services, a sceptic by Nature, an eternal optimist, right leaning humanist, and believes that India can do it. Narendra finished CFP certification in 2005and one among the first few certificants.

At the very outset, Narendra made few disclaimers listed below.

•   This presentation is from my (an advisor's) point of view
•   There are always many unknown unknowns in the area of economic indicators. This presentation provides a very limited and narrow viewpoint.

Narendra started by talking about the basic characteristics of Economic Indicators as listed below.

- Economical indicators are statistical indicators

- They hide lots of complexities

- They take an enormous amount of time and cost to create and maintain

- They are misleading sometimes (Example: Inflation/ GDP)

- They are misunderstood grossly by the media and layman

- They hide the reality

- There are lots of assumptions/ guesstimates/ Approximations/ Samples

- They are used and abused by all

Then Narendra spoke a bit on Indicators in general and how they are expressed as listed below.

- Statistics in a time series or at a point of time;

- Comparisons of structural components; or

- Comparisons of different entities (e.g. regions, enterprises).

Narendra briefly touched upon how statistics evolved into indicators and also spoke on the structural sequence for indicators.

1. Observations (organized systematically provide)
2. Data (that contain basic information and can be ordered into)
3. Statistics (either quantified at cardinal/fixed interval scales or non-quantified in ordinal ranking, further processed into)
4. Indicators (designed to express)
5. Structure or change (of phenomena related to)
6. Social and scientific concerns

Then, Narendra spoke on the concerns of the Economic Indicators

- Identifying the social demands, aspirations and problems that are, or could become, major concerns of the socioeconomic planning process;

- Measuring and reporting change in the relative importance of these concerns;

- Enlightening public discussion and government decision making

Then Narendra spoke on 'What is an Economic Indicator?'
- An economic indicator is a piece of economic data, usually of macroeconomic scale, that is used by investors to interpret current or future investment possibilities and judge the overall health of an economy.

- Most economic indicators have a specific schedule for release, allowing investors to prepare for and plan on seeing certain information at certain times of the month and year

- The key statistics of the economy that reveal the direction the economy is heading in; for example, the unemployment rate and the inflation rate.

Then he discussed several measures of production

- Capacity Utilization Rate

- Index of Industrial Production

- PPAC Petroleum Status Report

He also touched upon the importance of Capacity Utilization

- Explains the changes in the rate of investment, productivity of labor and inflation.

- Defined as the percentage of total capacity that is actually being achieved in a given period.

- It measures how much of the productive potential of the economy is being used at a given point in an economic cycle

- It reflects the business cycles as well as policy changes.

- Falls during a recession because of falling aggregate demand for goods and services

- When capacity utilization is falling the economy is likely to operate with a negative output gap (actual GDP less than potential GDP).

- At the same time the unit costs of production may rise since fixed/ overhead costs are being spread over a lower level of output
- Businesses may decide to retrench labor

Following this he spoke on measurement of CAPACITY UTILIZATION. •   In India, there is no single official estimate of capacity utilization.

- The Reserve Bank of India in its quarterly "Industrial Outlook Survey" and "Order Books, Inventories and Capacity Utilization Survey" provides some estimate about the level of CU in Indian manufacturing sector.

- Federation of Indian Chambers of Commerce & Industry (FICCI) in its quarterly Business Confidence Survey and Survey on Indian Manufacturing Sector provides some assessment of capacity utilization in the industrial sector.

- National Council of Applied Economic Research (NCAER) in its quarterly Business Expectation Survey also provides information on capacity utilisation in Indian industries.

He spoke on the current average capacity utilization levels on various sectors and how these levels are reported in the survey.

Sector	Q-2 2014-15	Q-3 2014-15	Q-4 2014-15	Q-1 2015-16*	Q-2 2015-16
Auto	70	80	75	NA	75
Capital Goods	70	80	65	NA	67
Cement	80	75	65	NA	78
Chemicals & Fertilizers	76	80	87	NA	85
Textiles	82	85	82	NA	82

Electronics & Electricals	70	70	70	NA	65
Food	82	60	65	NA	80
Leather & Footwear	65	65	68	NA	70
Metals	75	75	70	NA	67
Textiles Machinery	60	60	60	NA	55
Tyre	80	80	80	NA	80

Then he spoke on the importance of IIP (Index of Industrial Production•
    Details out the growth of various sectors in an economy

•   The all India IIP is a composite indicator that measures the short-term changes in the volume of production of a basket of industrial products during a given period with respect to that in a chosen base period.

•   It is compiled and published monthly by the Central Statistical Organization (CSO) six weeks after the reference month ends.

•   The level of the Index of Industrial Production (IIP) is an abstract number, the magnitude of which represents the status of production in the industrial sector for a given period of time as compared to a reference period of time.

•   The current base year is 2004-2005

Narendra also discussed on how markets react to when the economic indicators change like

A rise in capacity utilization rate / IIP Number?

•A Decline in capacity utilization rate / IIP Number?

Then he spoke on Fuel and Energy and Employment and Unemployment, Labor force and worker to population ratio.

This was followed by a discussion on National Income - Gross Domestic Product. Also, he briefly touched upon the history of India's National Income.

•   The first set of estimates of national income for the entire Indian Union was compiled by the 'National Income Committee', a High Powered Expert Committee set up by the Government of India under the Chairmanship of Prof. P.C. Mahalanobis in 1949.

•   First and Final reports of the National Income Committee brought out in April 1951 and February 1954 respectively

He spoke on the guiding principles for the new series

I.   Revision of base year to a more recent year (for meaningful analysis of structural changes in the economy in real terms)

II.   Complete review of the existing database and methodology employed in the estimation of various macro-economic aggregates including choice of the alternative databases on individual subjects

III.   To the extent feasible, implementing the international guidelines on the compilation of national accounts, the System of National Accounts (SNA), 2008

Then he spoke of the improvements in coverage.

Corporate Sector

•   In the 2004-05 series, the Private Corporate Sector was being covered using the RBI Study on Company Finances; estimates were compiled on the basis of financial results of around 2500 companies.

•   In the new series, comprehensive coverage of Corporate Sector has been ensured by incorporation of annual accounts of companies as filed with the Ministry of Corporate Affairs (MCA) under their e-governance initiative, MCA21.

•   Accounts of about 5 lakh companies have been analyzed and incorporated for the years 2011-12 and 2012-13, while the number of common companies (companies for which accounts are available for the year 2012-13) is around 3 lakh for the year 2013-14

Financial Corporations

•   Financial corporations in the private sector, other than banking and insurance, in the earlier series were limited to a few mutual funds and estimates for the Non-Government NBFCs as compiled by RBI.

•   In the new series, the coverage of the financial sector has been expanded by including stock brokers, stock exchanges, asset management companies, mutual funds and pension funds, as well as the regulatory bodies, SEBI, PFRDA and IRDA

Local bodies and autonomous institutions

•   Earlier, estimates for local bodies and autonomous institutions were prepared on the basis of information received for seven autonomous institutions and local bodies of four States – Delhi, Himachal Pradesh, Meghalaya and Uttar Pradesh.

•   In the new series, there has been an improved coverage of local bodies and autonomous institutions, covering around 60% of the grants/transfers provided to these institutions

Then he discussed on the **IMPLEMENTATION OF SYSTEM OF NATIONAL ACCOUNTS (SNA) 2008**

This was followed by "EFFECTIVE LABOUR INPUT METHOD"

•	All unincorporated manufacturing enterprises, except those covered under the Annual Survey of Industries
•	Unincorporated service enterprises, except those of Trade & Repair Services', 'Hotels and Restaurants', 'Non-mechanized Road transport' and 'Telecommunication'

Then he touched upon the Potential GDP growth

•	Potential output refers to the highest level of output that can be sustained over the long term.

•	It is assumed that the existence of a limit of output is due to natural and institutional constraints.

•	The issue of estimating potential output is, therefore, critically important in understanding the overall Inflationary dynamics of the economy

He also touched the concepts 'Productivity Growth' and 'Labor Force Growth'

This was followed by a discussion on other types of Indicators like BIG MAC INDEX and LIPSTICK INDEX and SKYSCRAPER BOOM INDICATOR
.
BIG MAC INDEX: This index is actually quite famous. Annually, the Economist publishes the price of Big Macs in countries across the globe to compare exchange rates and purchasing power.

LIPSTICK INDEX: First noticed by Leonard Lauder, the chairman of Estee Lauder, this index claims that rather than super expensive indulgences, women tend to turn to lipstick during recessions

SKYSCRAPER BOOM INDICATOR: The concept here is that building booms precede depressions, especially when the world is building a new "tallest building". In fact, during the Great Depression three of the world's tallest buildings were under construction

Towards the end, he also spoke on World Happiness Report(Ranking of Happiness 2013-2015).

Srinivasan B thanked Narendra for his presentation and sharing his insights on Economic Indicators.

Narendra's talk was followed by Rajendra Deshpande's talk on

'Investing in Real Estate ....heads-up'

Speaker's Introduction: Rajendra Deshpande is the CEO of PropCounselor, the first real estate services portal set up by senior professionals engaged in real estate sector, like property Advocates, Architects, Engineers, CAs, CFPs and mortgage bankers. He is also the director of Home Finance, a first of its kind institute dedicated to mortgage banking studies in India. He has got experience of more than 30 years, mainly in real estate and mortgage banking and Life Insurance.

Suresh introduced the speaker Rajendra to the gathering.

Rajendra initially discussed some of the myths and facts in Real Estate on legal, tax (exemptions, capital gains), ownership, sale, mortgage perspectives.

Then he spoke on Real Estate as an Investment which is the most preferred asset class which contributes to 27% of the total portfolio of individuals. Investing in Real Estate (Home) can consume lifetime savings and it comes with long term liability.

This was followed by a discussion on the pros and cons of Real Estate
Pros:

- Scores high on meeting basic tenets of investment
- Safety   – backed by immovable asset
- Returns   – consistently higher returns
- Liquidity – can be termed as 'moderate'

- ✓ The only asset, which appreciates over the years
- ✓ Periodical Returns- rent/lease amount increases over the years, thus hedging the Inflation
- ✓ Real Estate Assets offer consistent higher Capital Appreciation

Cons:

- Real Estate dealings are complex in nature - Involve intricate legal, technical, financial and taxation matters
- Ticket sizes are very high - Common man needs to invest 5-8 times of annual income to buy a decent 'roof'
- Availing home loan/mortgage loan is cumbersome
- Unregulated sector – controlled by un-professional players, dealings are lopsided – common man's interests are at stake
- Resale transactions - un-professional middleman – buying/selling/renting – cash portion involved
- Property disputes are on the increase – fake property documents in circulation – mortgaged properties are sold
- Managing properties is a conundrum, vacant plots face encroachment issues built properties at the mercy of local agents
- Obtaining information/documents/approvals and dealing with civic authorities is a nightmare
- No professional guidance is available to the common man
- All existing real estate portals heavily concentrate on buying, selling and renting properties – a kind of Sophisticated Brokers
- Most of them are promoted by Marketing and IT Experts without exposure in real estate sector
- Such portals will direct clients to Builders, Developers and Brokers to earn their revenue
    - Without verifying whether it suits the client's needs
    - Whether the properties are genuine having legal, technical and all requisite approvals from Govt. Authorities
    - Direct clients to local brokers, most of them are unprofessional
- The cons in the Real Estate lead us to the necessity of having proper counseling and professional guidance from experts regarding Legal Aspects, Technical Aspects, Financial Aspects, Taxation Issues, Long term investment appraisal.

Then he spoke on critical areas where Professional Guidance is needed to invest in Real Estate.

- ❖ General Counseling
- ❖ Legal Services
- ❖ Technical Services
- ❖ Financial Services
- ❖ Allied Services

He discussed in detail on various critical areas.

General Counseling

- ✓ Mortgage Banker – the right choice for general counseling on all related matters
- ✓ Mortgage Banker – While processing home loan or loan against property will get exposure in legal, technical, financial, taxation and insurance matters related to real estate
- ✓ Mortgage Banker having more than 20 years experience could be the ideal choice for Counseling
- ✓ Mortgage Banker can also guide his clients to right Advocate, Architect/Chartered Engineer/Valuer, CA and CFP – who have good exposure in real estate dealings

Legal Services

- Property Lawyer – the right choice is an Advocate with 20 years + experience in title related advisory and on the panel of leading Banks & HFCs with impeccable track record
- Property Lawyer – Apart from offering legal scrutiny service can also verify veracity of documents, do search report and procure missing documents and assist in liasioning with Govt. authorities
- Mediator/Arbitrator – Senior Advocate (preferably Retd. High Court Judges) could do justice in mediating for disputes in real estate matters
- Senior Advocates with proven track record of handling property related Civil and Criminal suits in High Courts/Dist. Courts.

Technical Services

- Surveyor – While buying a piece of land, for proper identification and fixing the boundaries in concurrence with Govt. Authority
- Chartered Engineer – Services like soil testing, planning and drawing Construction plans under bye laws – getting plan approvals – preparing
- Construction Estimations or Valuations – Supervision of construction
- Structural Engineer – Services like structural designs etc.
- Architect – Services like better aesthetic elevations – better usage of space – functionality – interior designs etc.
- Contractor – Executes the construction

Financial Services

- CA (Chartered Accountant) or CFP (Certified Financial Planner)
- Financial planning for acquisition of asset
- Advice on funding options – arranging margin money - savings – liquidating held assets
- Advice on taxation matters – maximizing Income Tax sops on home loan repayments
- Capital gains matters
- NRIs – Investment Plans – FEMA Provisions -Repatriation of sale proceeds etc.

Allied Services

- Vastu Consultancy
- Insurance Services – both property insurance and mortgage redemption cover for borrowers
- Property Management Services
- Joint Development Projects
- Liasioning Services

Tiru Seshacharya Srinivasan thanked Rajendra for sharing his thoughts and insights on various aspects of Real Estate.

This was followed by a Special General Body meeting of the council. Tiru Seshacharya Srinivasan and Pradeep Hattanagadi took over the proceedings.

The council passed few resolutions and changes to the existing resolutions with the approval from the members of the council.

Thus came to an end yet another insightful and thought provoking session.

The session gave many take always for the participants, which can be implemented in their practices.

The KM teams thank the Management committee for reposing faith in the Knowledge Management team to conduct the April 2016 monthly meet.

Prepared by Srinivas Bolisetti, Member, KM Team