

Avenues for NRIs

In the current financial turmoil, Aman Dhall takes a look at different investment options for NRIs

RAMAN Sharma is a worried man. The financial turmoil in the West has resulted in the 34-year-old non-resident Indian (NRI) losing more than \$1 million in investments in the last six months. A financial consultant by profession, Sharma has now decided to change his asset allocation to diversify its portfolio. Keen to make investments in India, he is unsure of which asset class to park his funds with. Sharma isn't alone. There are many NRIs who are now wondering what they can do in the current scenario.

Here's an insight into investment avenues for NRIs in the present market situation.

FIXED INCOME

For risk-averse investors, traditional fixed income products such as Foreign Currency Non Resident (FCNR) fixed deposits and Non Resident External (NRE) fixed deposits are the safest bet. While FCNR account can be opened in foreign currency, the NRE deposit account is maintained only in Indian rupee. It is advisable to invest in fixed deposits in INR as rupee is expected to appreciate in medium to long term.

"If someone wants to avoid currency risk then he may invest in FCNR account. Yield is higher than that prevailing in their home country," says Mukesh Gupta, director of Wealthcare Securities. For starters, you can maintain your FCNR fixed deposit account for a minimum period of 12 months and up to a maximum period of 60 months. FCNR accounts are non-taxable in India.

Maneesh Kumar, head — wealth management solutions, ASK Wealth Advisors, however, believes that NRE deposits should be preferred in current times as it provides competitive yield as compared to any other debt options. "Recently, rates have been hiked and are very favourable for an investor," he says. You can maintain an NRE fixed deposit for 1-10 years. Like FCNR account, NRE deposits are also non-taxable in India. Currently, the returns offered by banks on these deposits are around 6.5% to 7.5%.

THE FUND ROUTE

Equities may have taken a beating, but you can still look forward to decent re-

turns from income and gilt funds depending on your investment horizon and asset allocation. Gilt funds are mutual funds that invest in government securities and money market instruments. The advantage with these funds is that they do not carry default risk.

Financial planners opine that NRIs can also invest in FMP (Fixed Maturity Plans), but should

make sure that they invest in a plan having 100% bank Credit Derivatives (CD) portfolio to avoid credit risk. "This is the best option as it offers the safety of banks and tax treatment of mutual funds which is @10% in comparison to bank deposits where it is marginal rate of taxation. It is better to judge indicative portfolio before committing investment," says

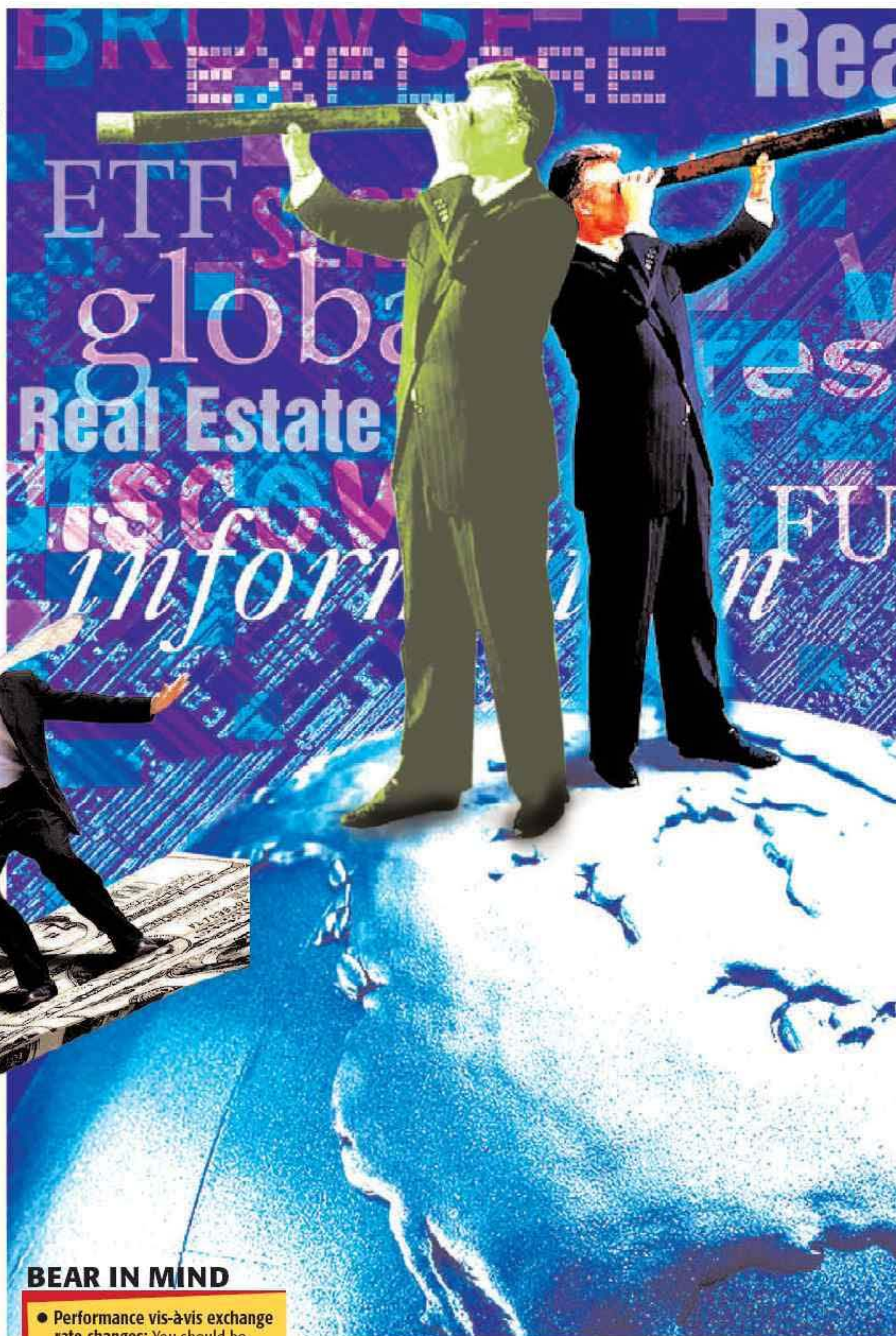
Gupta. Systematic transfer plans in equity mutual funds may also be considered.

EQUITY EXPOSURE

Wealth managers feel that this is the right time to invest in the Indian stock market. With the equity markets at a historic low and conservative economy growth still around 6%, analysts feel that it makes India an attractive investment destination. It is advisable to follow a calculated balanced approach to buy quality frontline stocks on every dip, especially stocks of cash-rich companies.

REAL ESTATE

If you wish to invest in real estate, financial planners say it's a good time to accumulate cash as a further correction in property prices is expected in the next three to six months. "Correction in real estate stocks has been effected but there is no meaningful correction in the prop-



BEAR IN MIND

- **Performance vis-à-vis exchange rate changes:** You should be aware at all times of any significant move in foreign exchange which affects your portfolio performance
- **Keep track of any changing regulations:** You should keep a close track of regulatory that may affect your investments
- **Tax implications of the investment:** It is a part of the investment planning process. You should certainly look into the tax aspects of any investments

erty prices. As per previous experience, property prices correction cycle is three to five year and correction is as deep as 40-50% from the peak," feels Gupta.

CHECK OUT

It is observed that most NRIs, ignore the tax aspect with regard to their investments. "You need to bear in mind that all your investment gains in India will attract a TDS of 33.99%," says Sanjeev Kamdar, partner, Kamdar Desai and Patel. That apart, long term capital gains tax of 22.66% are applicable in case of debt funds of over a year. If you redeem

your debt funds before one year, you'll be liable to pay short-term capital gains tax depending on your income tax slab applicable.

Repatriability is yet another aspect you need to consider. Towards this, you must ensure that all taxes due on your investment gains in India have been paid which will make it easier to repatriate their money. So NRIs, before you invest in India, give a thought to your risk profile, asset allocation, time horizon, tax liability and repatriability to make more bang for your buck in India.

aman.dhall@timesgroup.com