Celebrating 11 years of Creating Wealth

I-CAN COMMUNIQUÉ

JANUARY 2024

MONTHLY NEWSLETTER – JANUARY 2024

Sensex : Up 7.84 % Nifty : Up 7.94 %	
Best performing sector: Utilities (20.0 %)	Worst performing sector: F inancial Services Ex-Bank (2.2 %)
Best performing Global index: Nasdaq Bank (15.3 %)	Worst performing Global index: Shanghai Composite (-1.8 %)
Indian Rupee: +0.22 %	Gold (International): +1.19 %

MACRO ECONOMIC HIGHLIGHTS

Two high frequency economic indicators showed a mixed trend for the Indian economy. A sudden rise in food prices pushed retail inflation to a three-month high of 5.5 per cent in November, while strong growth in manufacturing helped industrial growth surge to a 16-month high of 11.7 per cent in October. Though food prices are still a concern, which could lead to another rise in retail inflation based on Consumer Price Index (CPI) next month, the good news is that core inflation (general inflation minus inflation of food and fuel) remains low and close to Reserve Bank of India's median target of 4 per cent. This is likely to help the Monetary Policy Committee (MPC) to continue with policy rate pause. It also means no change in interest rate on deposits and interest for the moment. During the month under review, rise in inflation on sequential basis was entirely because of food and beverages segment. In this, vegetables were the real culprit, recording an inflation rate of over 17 per cent in November against nearly 3 per cent in October. At the same time, cereals and spices persisted in double-digit for the 15th and 18th consecutive months, respectively, while pulses continued in the same vein for the sixth month in a row.

The manufacturing sector gathered momentum in November on the back of demand increase and easing of pricing pressure as the Purchasing Managers Index (PMI) climbed to 56, the survey released by S&P Global showed. The PMI rebounded from October's eight-month low of 55.5. After slowing in October, growth of output gathered pace as strengthening client demand and more favourable input supply boosted production volumes. Inflationary pressures retreated. Charges rose modestly, as the vast majority of firms opted to leave their fees unchanged since October. Manufacturers that hiked their fees, which were fewer than 7 per cent of panellists, mentioned demand strength, greater labour costs and the usage of higher-quality inputs in production processes," the report by the global credit agency notes. November marked 29 months of the index remaining above 50. A survey print above 50 indicates manufacturing expansion and below that marks contraction. The survey also notes that there was a substantial increase in the overall levels of new work received by Indian goods producers in November. In fact, the surveyed companies reported positive demand trends, greater client requirements and favourable market conditions. "The trend for new export business showed signs of resilience, despite weakening in November. New export orders rose for the 20th month in a row and solidly, albeit at the slowest rate since June. On the upside, companies signalled higher intakes of new business from Africa, Asia, Europe and the US," the survey noted. The survey also noted that manufacturing employment in India increased for the eighth successive month heading towards the end of 2023. This came as new work in the pipeline and a healthy demand environment spurred recruitment, anecdotal evidence showed.

India consolidated its position as the fastest-growing major economy globally as the Government's Statistics office released the Gross Domestic Product (GDP) data for second quarter spanning July to September months of the financial year 2023-24. The data showed that Indian economy has grown by 7.6 per cent during Q2 FY24 mainly on account of strong performance by industries. It is much higher than the projection of the Reserve Bank of India's Monetary Policy Committee (MPC) last month. Economic growth rate based on changes in GDP was 7.8 per cent in April-June quarter (Q1 of FY24) and 6.3 per cent of July period of FY23.

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India's economy is expected to "comfortably" achieve a growth rate upwards of 6.5% in FY24 despite risks emanating from external factors, the finance ministry said in its half-yearly economic review 2023-24 report. The Reserve Bank of India has recently projected India's economic growth at 7% in the current fiscal year, up from 6.5% earlier.

India's goods and services tax (GST) collections rose 10% year-on-year to ₹1.64 lakh crore in December, official data released showed. That's down from ₹1.68 lakh crore in November and up from ₹1.49 lakh crore in the same month the year before. Experts said the double-digit growth in collections reflected the underlying economic momentum and the monthly moderation was attributable to holidays and the base effect. "The sequential dip in the headline GST collections between November and December reflects the impact of the holidays related to the festive season, as GST is remitted in the subsequent month," said Aditi Nayar, chief economist, ICRA. "The moderation in the pace of growth of GST collections reflects the base effect."

The government's net direct tax collection rose over 23 per during the first eight months of the current fiscal, Finance Ministry said. With this, over 56 per cent of the budget estimate has been achieved. Officials say if the present trend continues, collection at the end of the fiscal year will exceed the budget estimate. Direct taxes include personal income tax (PIT) and corporate income tax (CIT), besides taxes such as securities transaction tax (STT). In a series of social media posts, the Ministry said net collection during April-November reached ₹10.6-lakh crore, which is over 23 per cent higher than collection of over ₹8.6-lakh crore during the corresponding period of FY23. The Budget estimated net direct tax collection at ₹18.22-lakh crore during FY24, which is around 28 per cent higher than the Budget estimate for FY23 and around 10.4 per cent of the revised estimate.

The fiscal deficit for April–November 2023 came in at ₹9.07-lakh crore, or 50.7 per cent of the Budget Estimate, narrower than the 58.9 per cent reported in the year-ago period. The Centre is aiming to narrow its fiscal deficit to 5.9 per cent of gross domestic product (GDP) by the end of this fiscal year, up from 6.4 per cent last year. The Finance Ministry had recently expressed confidence in meeting this fiscal deficit on the back of robust GDP growth. The fiscal deficit in November 2023 was half the year-ago level, led by lower tax devolution, a contraction in revenue expenditure, and marginal growth in capex in that month.

There was good news on the core sector front with the aggregate output growth of eight key industries coming in at a robust 8.6 per cent in April-November 2023, higher than 8.1 per cent in year-ago period. Core sector output in November 2023 hit a six-month low of 7.8 per cent, higher than the 5.7 per cent recorded in November 2023. The latest print was, however, lower than the 12 per cent growth recorded in October 2023. Six of the eight core industries recorded positive growth in November 2023.

The Centre's capex spend stood at ₹5.86-lakh crore during April–November 2023, or 58.5 per cent of the annual target, higher than ₹ 4.47 lakh crore rupees in the year ago period. The current dispensation will present an interim budget (vote on account) in February 2024, leaving the full budget to the next government.

REFORMS

The Securities and Exchange Board of India (Sebi) has revised the framework for upstreaming of clients' funds to clearing corporations by stock brokers and clearing members, the regulator said through a circular. In June, the capital market regulator had laid out a framework for the same but had received various representations from stock brokers and based on the suggestions made by them, revised the framework to enable ease of doing business. One of the revisions in the regulations pertains to the settlement of payment requests of clients on or before the next day instead of the same day. "All payment requests of clients received on a day shall be processed on or before the next settlement day. In cases where the payment request is not processed on the same day, SB/CMs (stock brokers, clearing members) need to ensure that the funds of the client are placed with CC (clearing corporations) in terms of this circular," Sebi said in its circular. The next revision relates to the upstreaming of fixed deposit receipts (FDR) created out of clients' funds. Sebi said stock brokers or clearing members cannot avail of any funded or non-funded banking facilities based on FDRs created out of clients' funds. Regulations allow FDRs to be created only with banks, which satisfy the clearing corporations' exposure norms as specified by them and/or Sebi. To improve operational efficiency and reduce transaction costs, clearing corporations (CC) shall build a mechanism for the utilisation of surplus unutilized collateral lying with them in cash form, towards fund pay-in requirements across segments, the regulator said.

Sebi is contemplating the implementation of a same-day settlement cycle, known as T+0, in two phases. This is seen as a preliminary step towards instantaneous settlement. The shorter T+0 settlement cycle is being considered for the equity cash segment as an optional mechanism, in addition to the current T+1 cycle. It has released a consultation paper outlining the T+0 settlement mechanism and seeking comments on potential challenges. In Phase 1, it will be implemented for trades taken till 1.30 pm with the settlement of funds to be completed by 4.30 pm. In Phase 3, there will instantaneous trade-to-trade settlement for both funds and securities. In this, trading will be done till 3.30 pm. After Phase 2 is implemented, Phase 1 of optional T+0 will be discontinued, said the paper. This will be in addition to T+1 settlement cycle already existing in the equity cash segment. In its consultation paper, it said that in today's age, reliability, low cost and high speed of transactions are key features that attract investors to particular asset classes. To that extent, reducing settlement time and hence increasing operational efficiency of dealing in Indian securities can further draw and retain investors into this asset class. Sebi has sought comments from public till January 12.

The Reserve Bank of India has eased the process to reactivate the dormant accounts and at the same time tightened norms to ensure that frauds are limited in the inoperative accounts where funds remain unclaimed. The central bank said that activation of such accounts can simply be done by re-submission of know your customer (KYC) details across branches including non-home branches. The process can also be done through video-customer identification process (V-CIP) on account holders' request, if the facility is being provided by the bank.

The RBI introduced a Card-on-File (CoF) token facility at the level of banks and other institutions to provide convenience for cardholders to get tokens created and linked to their existing accounts with various e-commerce applications. At present, a CoF token can only be created through the merchant's application or webpage. For a CoF, a token is a 16-digit number unique for a combination of card, token requestor and merchant. Through tokenisation, the actual card details are replaced with token credentials that can be used only with the intended merchant. "It has been decided to enable Card-on-File Tokenisation (CoFT) directly through card-issuing banks/institutions also. This will provide cardholders with an additional choice to tokenise their cards for multiple merchant sites through a single process," the RBI said in a circular.

Safety Measures for riding a Bull Market

As we all witnessed a bull market which we could say peaked out in October of 2021, let us learn from mistakes we all must have collectively made during that period so that we can be ready to embrace any bull market with open arms in the future.

1. Identify a bull market- Firstly, we need to understand what a bull market is. Large no of IPOs, excessive leverage, over optimism, very high trading volumes, high valuations, amateur investors moving to equity, herding mentality etc are some of the symptoms of a typical bull market.

2. Be humble- One must acknowledge how much of their gains is attributable to the liquidity and sentiment in the market and how much alpha they actually created against suitable benchmarks. It is a famous saying of legendary investor Mr Charlie Munger that "If you are a duck in a pond, and its water level rises due to rains, you start going up. But you think it's you and not the pond".

3. Research Quality- In a bull market, most of the stocks do well, irrespective of their fundamentals. Hence, if you witness a stock going up unilaterally and get into FOMO to accumulate it, you could either pick a wrong stock or a sound stock at a wrong price. As liquidity dries up or the sentiment turns negative, such stocks would be the worst hit and a retail investor often may not even get a timely exit. Hence one must not buy poor quality stocks just because their prices could be soaring in a bull market. One must also be cautious about the valuations while buying good quality stocks in a bull market. However, in order to assess the quality and valuation, one must do in depth research and not compromise with the quality of their research.

4. Limit the number of stocks in portfolio- As the breadth of a bull market could be encouraging, one may again get into a FOMO and buy as many stocks as possible. Though there is no evidence that over diversification can dilute portfolio returns, it is doubtful if an individual investor could have the bandwidth that is necessary to track a high number of stocks. They might not be able to take proper exit calls or add to the good bets with conviction or allocate proper weights to the stocks in their portfolio which is quintessential for portfolio management. Hence, one must not get greedy and hold only as many stocks as they could comfortably track.

5. Assess Sectoral Cycles- It is very important to understand the business cycles while buying stocks, especially those belonging to deeply cyclical sectors. A bull market generally sees a shift in sectoral cycles and some sectors emerge as winners, outperforming the frontline indexes. However, if an investor enters into a deeply cyclical sector at its peak or any sector for that matter at an absurd valuation, they might lose money as the sector goes through a down cycle subsequently. Also, it might take a very long period of time to recover to its previous highs, thus making it unattractive even from a long term perspective.

6. Have a sell strategy- While one must not buy a stock at absurd valuations signaling euphoria, one must not even hold a stock at such a valuation since their notional gains could erode if the stock goes through a price correction. Hence, one must always have an exit strategy with respect to every stock held by them, considering important parameters such as valuations and other business developments.

7. Be Cautious with Contrarian Calls- Since stock valuations are generally high in a bull market, one might choose to buy cheaply valued stocks or stocks that are near their 52- week lows. However, one must consider why a particular stock has not performed despite having a bull market and select such stocks very cautiously since a falling knife could fall even further.

8. Beware of IPOs- Promoters of poorly managed companies could seek an exit since doing so is much easier in a bull market. Hence, unless it is a good quality company and the IPO proceeds are being used for a legitimate purpose such as organic or inorganic growth, one must not forget to book profits and make a timely exit if they get IPO allotments.

9. Be Cautious with New Age Sectors- Typically, in a bull market, stocks of sectors which have never made money become very popular sheerly based on narratives of long term growth prospects. However, it may so happen that they never turn profitable, thus burning money of their investors even in the long term.

10. Category Allocation- Category allocation must be in check since there is a higher propensity to accumulate small/ micro caps during bull markets.

As they say, make hay while the sun shines. Similarly, we must be able to participate in a bull market and make the most of it as long as we maintain caution regarding the aforementioned factors.

Monthly Mantra

Don't just "hope" to get rich. "Plan" to get rich.

Cartoon of the Month

Good News!

1. Electric vehicle (EV) sales this year have witnessed a robust increase of over 45 per cent so far, notwithstanding the subsidy cuts and regulatory shifts. Total EV registration figure in 2023 is just shy of 1.5 million units, significantly higher than last year's score of a little over 1 million. All this has pushed the overall EV penetration in the country beyond 5 per cent – to 6.3 per cent against 4.8 per cent in 2022.

2. The monthly domestic automobile retail sales in November this year touched a new high of 2.85 million vehicles, surpassing the previous record of 2.57 million reached in March 2020, when the industry was transitioning from BS-IV to BS-VI emission norms. According to the Federation of Automobile Dealers Associations (Fada), automobile retail sales last month were over 18 per cent higher year-on-year (Y-o-Y) on the back of high demand for weddings.

3. Sales in the two-wheeler, three-wheeler, and passenger vehicle (PV) categories grew by 21 per cent, 23 per cent, and 17 per cent, respectively, on a Y-o-Y basis. The PV segment, too, witnessed a new record of over 360,000 sales in November, surpassing the October 2022 peak of around 357,000 units. Among passenger vehicles, Maruti Suzuki India witnessed a 20 per cent increase in retail sales, while Hyundai Motor India saw an 8 per cent uptick; the growth for Tata Motors was 30 per cent. Among two-wheeler makers, Hero MotoCorp posted a 26 per cent Y-o-Y rise in retail sales in November. Honda Motorcycle and Scooter India moved up by 11 per cent and TVS Motor by 34 per cent.

4. In a first, more than eight crore Income Tax Returns (ITR) have been filed so far in the Assessment Year (AY) 2023-24, the I-T department said. Notably, the total filings for AY 2022-23 were recorded at 7,51,60,817. "Income-tax Department expresses its gratitude to all the taxpayers and tax professionals for helping us cross the 8-crore mark," the taxman said in a post on X.

5. The number of bank accounts under the nine-year-old Pradhan Mantri Jan Dhan Yojana (PMJDY) has crossed the 500-million mark with total deposits exceeding ₹2 trillion, Union minister of state for finance Dr Bhagwat Kishanrao Karad said. In a written reply to a question in the Rajya Sabha, the minister stated that as on 29 November, 510.4 million PMJDY accounts have been opened which have deposits of ₹2.08 trillion.

6. Unified Payments Interface (UPI) transactions grew 118 per cent in volume and 106 per cent in value at semi-urban and rural stores in the country, underlining strong adoption in geographies beyond tier two regions, a report by fintech company PayNearby showed. This development follows strong growth in UPI volumes and transaction values over the past year. In November this year, UPI transactions clocked a volume of 11.24 billion transactions and a value of Rs 17.4 trillion, according to data from the National Payments Corporation of India (NPCI). PayNearby's third edition of the pan-India report titled 'Retail-O-Nomics' showed that insurance policy purchases and premium collections rose 150 per cent in transaction volume and 140 per cent in new customer adoption on a year-on-year (Y-o-Y) basis. Meanwhile, Mobile Point of Sale (mPOS) acceptance recorded a 5 per cent increase in value, representing an increase in the adoption of technology among small merchants.

Top Personal Finance News – December 2023

1. Son fights for 9 years with HDFC Bank to get Rs 5 lakh accidental death insurance cover on debit card Click here
2. 50% of complaints against pvt life insurance companies in 22-23 were unfair business practice grievances: IRDAI Click here
3. Bank ordered to pay Rs 10 lakh to customer for loss of jewellery from bank locker Click here
4. Surrender fee: Insurers propose dual structure as regulator pitches for a hike Click here
5. Don't have Aadhaar? Go for passport-like verification first Click here
6. Canara Bank to pay Rs 9 lakh as compensation to NRI for deficiency in services: NCDRC Click here
7. NRI re-entry roadmap: 7 smart financial tips for homecoming Click here
8. Woman can be karta of Hindu Undivided Family (HUF): Delhi HC Click here
9. RBI policy: Facing issues with UPI payment limits? RBI lifts caps Click here
10. Banks to be open for only 5 days a week? Finance ministry receives IBA proposal Click here