I-CAN COMMUNIQUÉ

Celebrating 11 years of Creating Wealth

MARCH 2024

MONTHLY NEWSLETTER – MARCH 2024

Sensex : Up 0.78 % Nifty : Up 1.13 %	
Best performing sector: PSU Bank (14.09 %)	Worst performing sector: Media (- 3.97 %)
Best performing Global index: Nikkei 225 (8.71 %)	Worst performing Global index: Merval (Argentina) (- 19.06 %)
Indian Rupee: + 0.27 %	Gold (International): + 1.0 %

MACRO ECONOMIC HIGHLIGHTS

Inflation in retail prices has been reported to be low in January compared to the same month last year while the index of industrial production (IIP) was up in December year-on-year (Y-o-Y). Led by broad-based moderation and a favourable base effect, the retail inflation rate, based on the consumer price index (CPI), decelerated to a three-month low of 5.10 per cent Y-o-Y in the first month of calendar year 2024. It was 5.69 per cent in December while in January last year it was 6.52 per cent. The growth rate in the IIP slightly increased to 3.8 per cent in December from 2.4 per cent in November on the back of improvement in the performance of the manufacturing sector (3.9 per cent).

Rajani Sinha, chief economist at CARE Ratings, said the headline inflation rate, which had been going up in the previous two months, reversed course in January due to gradual sequential easing, particularly in the food basket. "Ongoing deflation in the fuel and light categories continues to support inflationary prints. Core inflation remained subdued and moderated further, consistently staying below the 4 per cent threshold for two consecutive months, mainly due to muted consumption demand and a moderation in global commodity prices. However, high inflation in specific food categories, including cereals, pulses, and spices, poses a risk of potentially broadening price pressures and de-anchoring inflationary expectations," she added. Stating similar views, Aditi Nayar, chief economist, ICRA Ratings, said while rabi sowing had caught up with last year's level, reservoir storage remained below what it was a year ago in most regions, making the outlook for the rabi harvest cautious.

India's wholesale price index-based inflation eased further to 0.27 per cent in January on an annual basis, as against 0.73 per cent in December, stated provisional data from the Commerce Ministry. A Reuters poll had estimated the index would rise 0.53 per cent. The month-on-month change in WPI index for January witnessed a contraction of (-)0.33 per cent from a contraction of (-)1.12 per cent in the preceding month. "Positive rate of inflation in January, 2024 is primarily due to increase in prices of food articles, machinery & equipment, other manufacturing, minerals, other transport equipment etc," the release said.

The Reserve Bank of India's (RBI's) Monetary Policy Committee (MPC) decided to keep the repo rate unchanged at 6.5 per cent for the sixth consecutive time and Governor Shaktikanta Das retained the inflation forecast for 2023-24 at 5.4 per cent. For the current quarter, the projection was lowered to 5 per cent from 5.2 per cent estimated earlier. For FY25, the inflation projection has been kept unchanged at 4.5 per cent. The inflation trajectory, going forward, would be shaped by the outlook on food inflation, about which there is considerable uncertainty. Adverse weather events remain the primary risk with implications for the rabi crop. Increasing geopolitical tensions are leading to supply chain disruptions and price volatility in key commodities, particularly crude oil," the governor said in a statement.

Informing the Parliament of the measures taken to keep inflation stable, Finance Minister Nirmala Sitharaman, while presenting Interim Budget 2024-25 in the Lok Sabha said "retail inflation is stable and has come down within the tolerance band as a result of the steps taken by the government to check price rise, especially in perishable commodities."

The Federal Reserve held interest rates steady for a fourth straight meeting and signalled an openness to cutting them, though Fed Chair Jerome Powell threw cold water on investors' hopes that reductions would begin in March. The central bank's policy-making Federal Open Market Committee showed it is in no rush to reduce rates, noting in a statement that it "does not expect it will be appropriate to reduce the target range until it has gained greater confidence that inflation is moving sustainably toward 2%." "We believe that our policy rate is likely at its peak for this tightening cycle and that, if the economy evolves broadly as expected, it will likely be appropriate to begin dialing back policy restraint at some point this year," Powell said. "We are prepared to maintain the current target range for the federal funds rate for longer, if appropriate." The decision to leave the target range for the benchmark federal funds rate unchanged at a 22-year-high of 5.25% to 5.5% was unanimous. The central bank also reiterated its intention to continue reducing its balance sheet by as much as $95 billion per month.

An increase in new business activity due to the buoyant demand from domestic and external clients pushed growth in India's dominant services sector to a six-month high in January, as the headline Purchasing Managers' Index (PMI) figure rose to 61.8 in January from 59 in December, showed the survey released by S&P Global in partnership with HSBC. The upturn was cemented by the quickest increase in new business since last July, which stemmed from buoyant demand from domestic and external clients. New export sales rose at the fastest pace in three months," the survey said. According to HSBC Flash India PMI data, the manufacturing PMI rose to 56.5 in January. In December last year, it had fallen to an 18-month low of 54.9. The latest reading highlighted the strongest improvement in the health of the sector since last September. It has been above 50 since June 2021. "Current output expanded on robust demand, with domestic orders growing at a faster pace than export orders. The input price index inched up, but manufacturers were able to pass on some of the cost pressures to consumers, as suggested by the small rise in the output price index," said Ines Lam, economist at HSBC.

India collected Rs 1.72 lakh crore as goods and services tax (GST) in January, up 10.4% from the year earlier, reflecting continued momentum in economic activity. That's up from rs 1.64 lakh crore in December. This is the second highest collection since the implementation of GST in 2017. The highest was in April 2023 — Rs 1.87 lakh crore.

REFORMS

Going forward, all you need is a mobile number and the bank name of the receiver to transfer money online, said the National Payments Corporation of India (NPCI). Soon, you can transfer up to Rs 5 lakh from one bank account to another without adding a beneficiary. The NPCI had requested all members to comply with its order for initiating and accepting fund transfers through mobile numbers and bank names on all IMPS channels by January 31, 2024, as per the circular. As the last date is here, bank. Keep in mind that banks will provide a beneficiary validation facility to customers before initiating a financial transaction. NPCI also directed the remitter banks to maintain a mapping of member bank names with default MMID and undertake necessary UI/UX enhancements to facilitate beneficiary validation and financial transactions using mobile numbers and bank names. The beneficiary bank also needs to accept the bank name-based transaction request and process payments to the beneficiary account for the same. For multiple accounts linked against the mobile number, the beneficiary bank shall credit to the primary/default account. The primary/default account shall be identified using the customer's consent. In case, the customer consent is not provided, the bank shall decline the transaction.

The rules to withdraw money partially from the National Pension System (NPS) have changed from this month. Starting February 1, 2024, an NPS subscriber can withdraw from his pension account if it has completed three years. Keep in mind that there is a limit on how much you can withdraw. An NPS account holder can withdraw up to 25% of his contributions, according to the master circular released by the Pension Fund Regulatory and Development Authority (PFRDA) on January 12, 2024. Withdrawal cannot be made from the portion of the corpus contributed by the employer. Further, the returns generated on the returns generated on the contributions will also not be eligible for partial withdrawal.

RBI has asked card networks such as Visa and Mastercard to stop commercial card transactions under the Business Payment Solution Providers (BPSP) business, citing concerns about the legitimacy and inadequacy of merchant KYC and the end use of funds. The central bank has written to the networks on a sub-segment of B2B (business-to-business) payments called BPSP, with queries on how it works and the participants involved. Meanwhile, it has also barred any such incremental transactions. While BPSPs are regulated and licensed by RBI under the PA-PG (Payment Aggregators and Payment Gateways) guidelines, there are concerns on transactions being carried out without proper invoicing or KYC, making it difficult to track the source of money and where it is going.

The government has approved the standard operating procedure (SOP) through which agencies such Nafed and NCCF will enter into pacts with distillers for assured supply of maize at `2,291/quintal for ethanol manufacturing, while the agencies will buy maize from the farmers at an MSP of `2090/quintal for kharif season (2023-24). "The scheme aims to ensure the guaranteed MSP to maize farmers, while distilleries get assurance of uninterrupted supply of the feedstock, de-risking price volatility," an official said. The move is part of the government's efforts to increase blending of ethanol with petrol, which was around 12% in Ethanol Supply Year (ESY) 2022-23 and the target is to reach 15% in ESY 2023-24.

Days after the Financial Stability and Development Council (FSDC) discussed a proposal to bring out uniform Know Your Customer (KYC) norms, the government has formed an expert committee headed by Finance Secretary T V Somanathan to make its recommendations on the matter, official sources said. The committee has been constituted. Different government departments and FSDC members are part of it," a senior official said. The committee would invite inputs from all the members of the FSDC on KYC norms. The Ministry of Corporate Affairs, for instance, would share its practices with regards to the use of the permanent account number (PAN).

Stock Markets and General Elections

General elections is a major event that every Indian is looking forward to in 2024. While many analysts and market participants have attempted to analyse the impact of the elections results on the stock market performance since ages, let us find out if it is even worth the attention and if so, then what could be the intensity to which election results could influence the market performance. Let us look at the market performance represented by frontline index "Sensex" during the period ranging from 3 months prior and 3 months after the elections during various tenures starting from the year 1999.

- **The Year 1999 – NDA in Power**

The voting phase was from September 5 to October 3, 1999. Sensex was at 4141 points 3 months before the elections while it rose to 5005 points during the 3 months after the elections. Thus, it rallied by 864 points during the period. As the results were within the expectation of the market, Sensex rallied about 7% and continued the upward trend for the next three months.

The GDP growth rate reached around 6-7%. However, within the next two years, it fell around 50% due to domestic and global factors such as the 9/11 attack. As a result, at the end of the NDA government tenure, the annual compound return was just 3%, and the absolute performance was over 14%.

- **The Year 2004 – Congress Back to Power as UPA**

The voting phase was from April 20 to May 10, 2004. Sensex was at 5591 points 3 months before the elections while it fell to 5192 points during the 3 months after the elections. Thus, it fell by 399 points during the period. However, it shot up by 13 percentage points during the period of 6 months post elections after the public viewed Dr Manmohan Singh and P Chidambaram as reform- friendly.

After the 2004 election result, the market lost 15% in 2-3 trading sessions as the results were not according to the market sentiment.

However, after the initial disappointment, the market saw a bull rally till late 2007, accompanied by a robust GDP growth rate of around 8% and a record-high Foreign Direct Investment of $34 billion in 2007. The global financial crisis of 2008 brought an end to the bull market, but the market started recovering in 2009 by the time India went to the polls.

- **The Year 2009 – Congress Continues for a Second Term**

The voting phase was from April 16 to May 13, 2009. Sensex was at 9709 points 3 months before elections while it rose to 15667 points during the 3 months after the elections. Thus, it rose by 5958 points during the period. The Sensex was at par during the period of 6 months after the elections since there was no significant change in policy.

In 2009, UPA came back to power. The market gained 17% in a single day, but as the second tenure of the UPA government was filled with scams, the market remained choppy. The decline in investor confidence during the UPA government's second term had adverse effects on domestic and foreign investments, leading to reduced capital inflows.

- **The Year 2014 – NDA Comes to Power with Modi Wave**

The voting phase was from April 7 to May 12, 2014. Sensex was at 22386 points 3 months before the elections while it rose to 26638 points during the 3 months after the elections. Thus, it rose by 4252 points during the period. The Sensex rose by 9 percentage points during the period of 6 months after the elections due to policy reforms undertaken by the Modi Government.

When the NDA came into power again with a full majority in 2014, the market experienced a significant boost in investor sentiment. The overall impact of the NDA government's policies and market sentiment was instrumental in driving the initial market euphoria, reduced volatility, and record-high levels of the stock market.

- **The Year 2019 - BJP Remains in Power**

The voting phase was from April 11 to May 19, 2019. Sensex was at 38673 points 3 months before **the** elections while it fell to 37332 points during the 3 months after the elections. Thus, it fell by 1341 points during the period.

Post-election, the market witnessed a significant upswing, with several key stock indices reaching record highs. This rally was attributed to the expectations of continued economic reforms and policy continuity under the BJP-led government. The government's emphasis on initiatives such as "Make in India", infrastructure development, the ease of doing business, tax reforms, and efforts to attract foreign investment were viewed positively by investors.

Following is the conclusion that could be drawn from the above data-

1. Market performance has hardly any co relation with continuity of the ruling party. It is more important to understand the market expectations of the election results since market has generally reacted positively whenever the result has been as per its expectation while it has tumbled when it has been different than its expectation.

2. It is not necessary that the market would hold on to its negative sentiment if the result was not as per its expectation. The market would look forward to the announcements by the policy makers with respect to business and economy. The market sentiment could turn positive if the policy reforms seem business friendly.

3. Even though election result could influence the market performance in the near term to some extent, it is not a decisive factor in the long term. However, pro-business policy reforms are quintessential for economic growth of a country. Thus, it can impact several economic indicators which in turn could impact FII inflows and market performance.

4. While the Central Government is supposed to be a catalyst to the economic growth of a country, it alone is not responsible for it. There are various factors, both domestic and global which influence the economy as well as the market performance.

Thus, it does not seem prudent to take investment decisions merely based on election results, especially for long term investors. However, it makes sense to keep some gun powder dry for the event as we cannot rule out the possibility of election results impacting the market sentiment in the short term.

Monthly Mantra

Some people are bills while some are investments. Make sure you understand the difference.

Cartoon of the Month

"I reviewed your investments and set you up for early retirement. On your last day of work, you can afford to leave at 4:30 instead of 5:00."

Good News!

1. Prime Minister Narendra Modi released the 16th installment of the Pradhan Mantri Kisan Samman Nidhi (PM-Kisan) scheme worth over Rs 21,000 crore to more than 9 crores farmers on February 28, 2024, during his visit in Yavatmal, Maharashtra. The amount is transferred to the beneficiary bank account through DBT.

2. Global consumer product companies are betting big on the India growth story. Companies such as Coca-Cola, Mondelez, and Nestle are ramping up investments to increase production capacities. John Murphy, President & Chief Financial Officer, the Coca-Cola Company, said: “A significant portion of our expected capital investment increase is to build capacity for fairlife and for our India business, both of which experienced robust growth in 2023.” The top management of Mondelez International, which is known for Cadbury and Oreo, in a recent earnings call, said that the company is going to have an “uptick in capex,” particularly as it needs to invest in markets such as India to put down more capacity and witnessed “stellar” volume growth over the last five years. Earlier this month, Nestle India Chairman and Managing Director Suresh Narayanan reiterated that the packaged food major’s investment plans till 2025 are on track. Between 2020-2025, Nestle will end up making investments to the tune of ₹6,000-6,500 crore, a significant ramp up compared to previous years.

3. India's exports rose to a three-month high of 3.12 per cent to USD 36.92 billion in January despite global uncertainties including the Red Sea crisis, while the trade deficit narrowed to a nine-month low of USD 17.49 billion.

4. Satellite-related activities under the space sector can get Foreign Direct Investment between 49-100 per cent as the Union Cabinet approved an amendment in FDI policy for the space sector. According to a government statement, under the amended FDI policy, 100 per cent FDI is allowed in the space sector. Now, satellite manufacturing & operation, satellite data products and ground segment & user segment can get FDI up to 74 per cent under the automatic route, beyond which government route will be applicable. Sub-sector comprising launch Vehicles and associated systems or sub-systems, the Creation of Spaceports for launching and receiving Spacecraft can get FDI through automatic routes up to 49 per cent. Here, too, beyond 49 per cent, these activities are under government route. One hundred per cent FDI under automatic route has now been permitted to manufacture components and systems/sub-systems for satellites, ground segment and user segment. “This increased private sector participation would help to generate employment, enable modern technology absorption and make the sector self-reliant. It is expected to integrate Indian companies into global value chains. With this, companies will be able to set up their manufacturing facilities within the country duly encouraging ‘Make In India (MII) ‘and ‘Atmanirbhar Bharat’ initiatives of the Government,” the statement said.

5. In a bid to promote solar power, Prime Minister Narendra Modi announced that the government is launching the PM – Surya Ghar: Muft Bijli Yojana entailing an investment of over Rs 75,000

crore. Taking to X (formerly Twitter), the Prime Minister said that the scheme aims to light up 10 million households by providing up to 300 units of free electricity every month. In another tweet, he said that under the scheme the beneficiaries would get subsidies in the form of direct benefit transfer in their bank accounts along with concessional bank loans.

6. The average spending on non-food items by rural India surpassed the 50 per cent mark for the first time in 2022-23, with a decrease in the proportion of total expenditure now allocated to food items, according to the latest Household Consumption Expenditure Survey (HCES) released by the Ministry of Statistics and Programme Implementation (MoSPI). The Survey results released after 11 years show as a share of monthly per capita expenditure (MPCE), spending on food items in rural India decreased to 46.38 per cent in 2022-23 from 52.9 per cent in 2011-12. The latest data is expected to play a pivotal role in reviewing critical economic indicators such as the consumer price index (CPI), the gross domestic product (GDP), and poverty levels.

7. The number of individual crorepati return filers has almost doubled in the last five years, data presented in Rajya Sabha showed. Interestingly, the number climbed during the tough Covid years also. In a written reply, Minister of State in the Finance Ministry Pankaj Chaudhry presented data that showed that the number of individuals who submitted an e-return with income of more than ₹1 crore was over 1.09 lakh during the Assessment Year 2019-20. This surged to over 2.16 lakh during AY24 (Fiscal Year 2022-23), showing a growth of 97 per cent. During the Covid years as well, that is, 2020-21 and 2021-22, there was a steady rise in crorepati filers. According to the Income Tax Department, the number of returns filed rose to a new record of 8.18 crore for AY 23-24 (till December 31, 2023), showing a growth of more than 9 per cent as against 7.51 crore returns filed in the previous year. The Department said a number of measures introduced to ease compliance were used extensively by taxpayers, resulting in smoother and faster filing of ITRs.

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