Celebrating 11 years of Creating Wealth

I-CAN COMMUNIQUÉ

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MONTHLY NEWSLETTER – NOVEMBER 2023

Sensex : Down 2.97% Nifty : Down 2.85%	
Best performing sector: Realty (4.75 %)	Worst performing sector: PSU Bank (-6.16 %)
Best performing Global index: Merval (Argentina) (2.95 %)	Worst performing Global index: Seoul Composite (-7.59 %)
Indian Rupee: - 0.11 %	Gold (International): +7.42 %

MACRO ECONOMIC HIGHLIGHTS

India's retail inflation for the month of September raised by 5.02 per cent, compared with its growth of 6.83% in August, according to the data released by the ministry of statistics. Months after elevating to its 15-months peak level, India's retail inflation cooled down further in the month of September. Moreover, the inflation came below RBI's upper tolerance band of 2%-6%. Despite a positive reduction in inflation, CPI continued to remain above 4%, a target that the country's central bank has signalled would be key before easing rates. One of the major contributors in the consumers price basket, food inflation, also lowered last month. Food inflation rose by 6.56% in September against 9.94% in August. High vegetable prices was the key factor in fuelling inflation for the past two months. In the wake of rising inflation, government even imposed ban rice exports, and raising duties for onions.

India’s wholesale price index (WPI)-based inflation touched a six-month high of -0.26 per cent in September, even as it remained in negative territory for the sixth consecutive month, data released by the ministry of commerce and industry. The continuing deflation in factory gate prices comes on the back of a high base and a sharp deceleration in food prices. It is also because of the continued contraction in the prices of fuel and manufactured products like mineral oils, textiles, basic metals, chemicals and chemical products, compared to the corresponding month of the previous year. Earlier in August, the wholesale inflation rate had stood at -0.52 per cent and it was 10.55 per cent in September last year.

The six-member monetary policy committee voted unanimously to maintain the status quo on the policy repo rate to tackle inflation, which remains vulnerable to recurring and overlapping food price shocks, and support resilient economic activity. In all four meetings in the current financial year so far, the repo rate has been left unchanged at 6.50 per cent. RBI Governor Shaktikanta Das emphatically reiterated that the inflation target is 4 per cent and not 2 to 6 per cent. Hence, monetary policy needs to remain actively disinflationary at the current juncture. “We have identified high inflation as a major risk to macroeconomic stability and sustainable growth. Accordingly, our monetary policy remains resolutely focussed on aligning inflation to the 4 per cent target on a durable basis,” he said.

Consumer inflation held steady in the United States last month, according to government data released, giving policymakers some reprieve in their battle to tamp down price increases. The consumer price index (CPI), a closely watched inflation gauge, rose 3.7 percent from a year ago, the same rate as in August, the Labor Department said. However, on a month-to-month basis, inflation slowed from 0.6 percent to 0.4 percent, according to the latest report. Slowing inflation will be good news for the Federal Reserve, which has waged an aggressive campaign of interest rate hikes since March last year to lower demand and in turn, the pace of rising costs. Although Fed policymakers have left the door open to another rise in the benchmark lending rate this year, lower inflation figures could reduce the need for one at their next meeting.

The gross domestic product (GDP) of the US expanded at an annualized rate of 4.9 per cent in the third quarter, the US Bureau of Economic Analysis' (BEA) first estimate showed, October 6. The US economy grew at the fastest pace in nearly two years, buoyed by a strong consumer in spite of higher interest rates, ongoing inflation pressures, and a variety of other domestic and global headwinds. The US GDP reading followed the 2.1 per cent growth recorded in the second quarter and surpassed Wall Street expectations of 4.2 per cent. Economists surveyed by Dow Jones expected the GDP to accelerate at 4.7 per cent, which also is adjusted for inflation.

Indian manufacturing expanded at the slowest pace in five months in September but demand and output significantly improved despite increased inflationary pressures, said a survey by the credit rating agency S&P Global. The Manufacturing Purchasing Managers' Index (PMI) fell to 57.5 in September, compared to 58.6 in August. India's manufacturing industry showed mild signs of a slowdown in September, primarily due to a softer increase in new orders which tempered production growth. Nevertheless, both demand and output saw significant upticks, and firms also noted gains in new business from clients across Asia, Europe, North America and the Middle East," said Pollyanna De Lima, economics associate director at S&P Global Market Intelligence.

India's economic growth forecast for the current fiscal year has been raised to 6.3 per cent from 6.1 per cent earlier, the International Monetary Fund (IMF) said in its October 2023 World Economic Outlook (WEO) report that was released on Tuesday, October 10. The global lender expects retail inflation in the country to rise to 5.5 per cent in fiscal 2023-24 before easing to 4.6 per cent in 2024-25. Whereas, The Indian economy is projected to grow by 6.3 per cent in FY24 with a minimum and maximum growth estimate of 6.0 per cent and 6.6 per cent respectively, according to the latest Economic Outlook Survey released by the Federation of Indian Chambers of Commerce and Industry (FICCI).

India and China are projected to jointly contribute about half of the world's growth in both 2023 and 2024, the International Monetary Fund (IMF) said in its latest Regional Economic Outlook (Asia and Pacific) report. India's economy is projected to grow at 6.3% in FY24 and FY25 – the fastest among the major economies of the world, while China's economy is likely to grow at 5% in 2023 and 4.2% in 2024. The IMF said that "strong" private demand yielded positive growth surprises in the country. In Q1FY24, India's economy grew at 7.8%. The private financial consumption expenditure during the quarter grew at 6% year-on-year as against 2.8% in Q4FY23. The upward revision of India's FY24 growth forecast by 20 basis points by the IMF was done due to resilient domestic demand and strong investment inflows, said the agency. The projections for both years are 10 basis points higher than the Reserve Bank of India's estimates. Meanwhile, the multilateral agency projected the world's economy to grow at 3% in 2023 and 2.9% in 2024.

REFORMS

The Securities and Exchange Board of India (SEBI) tweaked guidelines pertaining to anti-money laundering standards, whereby partners holding a 10 per cent stake in a firm will come under the definition of beneficial owners. Earlier, the requirement was 15 per cent. The development comes after the government amended the Prevention of Money Laundering (Maintenance of Records) Rules or PMLA rules in September.

Sebi relaxed norms for borrowings through the issuance of debt securities by large corporates to meet their financing needs. Under the rule, entities qualified as large corporates are required to meet 25% mandatory borrowing from bonds. Large corporates are those that have an outstanding long-term borrowing of at least Rs 100 crore with a credit rating of 'AA and above' and have their debt securities listed on a stock exchange. Under the new framework, Sebi has introduced incentives for large corporates in case of surplus in the requisite borrowings and moderated disincentives if they fail to raise at least 25 per cent of their incremental borrowings through debt securities. In case of shortfall or surplus by way of issuance of debt securities, additional or lower contributions, respectively, to the core Settlement Guarantee Fund (SGF) of the Limited Purpose Clearing Corporation (LPCC) needs to be made by the LC, according to the circular.

The Reserve Bank of India (RBI) has increased the threshold limit of non-callable deposits to Rs 1 crore from Rs 15 lakh now, a move that would provide more flexibility to depositors. These new norms for commercial and co-operative banks are applicable with immediate effect. "During a review, it has been decided that the minimum amount for offering non-callable term deposits may be increased from Rs 15 lakh to Rs 1 crore. This means all domestic term deposits accepted from individuals for an amount of Rs 1 crore and below will have premature withdrawal facility," the RBI said.

The RBI has revised its master direction on Know Your Customer (KYC) for regulated entities to incorporate amendments to the Prevention of Money Laundering rules. These changes also deal with the requirement of beneficial owner (BO) identification for "partnership firms". The revised norms clarify the standing of principal officers (PO) in regulated entities (RE) who are responsible for furnishing information. Under the revised definition, "Principal Officer" means an officer at the management level nominated by the RE. It also fine-tuned the definition of Customer Due Diligence (CDD). This would cover the identification of the customer and verification of their identity using reliable and independent sources. REs would have to obtain information on the purpose and intended nature of the business relationship. Now, REs and concerned officials would have to take reasonable steps to understand the nature of the customer's business, and its ownership and control structure. They would have to determine whether a customer is acting on behalf of a beneficial owner and identify that beneficial owner. They would be required to take all steps to verify the identity of the beneficial owner, using reliable and independent sources, RBI said.

The RBI directed banks to strengthen their senior management by hiring at least one whole-time director besides the managing director on the board. The regulator has set a four-month deadline for submitting proposals for such appointments. "Given the growing complexity of the banking sector, it becomes imperative to establish an effective senior management team in the banks to navigate ongoing and emerging challenges," RBI said in a communication to all private sector banks and wholly-owned subsidiaries of foreign banks.

The Central Board of Direct Taxation (CBDT), in a notification, has said that Permanent Account Number (PAN) will no longer be required for non-resident individuals and foreign companies opening bank accounts in GIFT IFSC and not having any other taxable income in India. These entities will no longer be required to quote PAN and can instead provide form 60 to the banks for their transactions. This will also take away the spectre of income tax notices that could come from acquiring a PAN. The move will benefit overseas firms wanting to set up treasury management operations, global institutional investors as well as non-residents who want to want to set up family investment funds or other structures at GIFT IFSC.

The CBDT has issued directives to tax officials that may prevent them from scrutinising funds raised by recognised start-ups under the new angel tax regime. In a recent communiqué to senior officials, the direct tax administration said that no verification would be done by any assessing officer if a start-up has been recognised by the Department for Promotion of Industry and Internal Trade (DPIIT) and the case is selected under scrutiny for pending angel tax assessment. It said the applicability of angel tax would not be pursued during the assessment proceedings of such recognised start-ups and the assessing officer shall be duty-bound to accept the argument of such a firm and drop the proceedings.

Frequently Asked Questions (FAQs)- PMS

Q1. Why should we invest in PMS/ How is PMS different than mutual funds?

Ans. A mutual fund portfolio invested across categories would give you an exposure to over 100 scrips and mostly include those which are heavy weights in their benchmark indexes. Thus, investing in mutual funds is like "buying the markets". However, investing in PMS is buying into specific businesses. Also, while a mutual fund scheme provides same portfolio to every investor, generally no two portfolios under a particular PMS strategy would be the same since cash deployment and weights assigned to scrips depends on the time of entry which would be different for every investor.

Q2. Who can invest in PMS/ Is PMS only for high networth individuals (HNIs)?

Ans. The minimum ticket size for investing in a PMS as mandated by SEBI is Rs 50 lakh. An investor must decide their asset allocation considering various factors such as their financial goals, investment horizon for investing towards each goal, risk appetite etc. However, if they can allocate over Rs 50 lakh to equity, then they should consider both Mutual Funds and PMS as investment options for their equity allocation and select on the basis of factors such as fund manager track record, past performance, investment philosophy and process etc.

Q3. How is PMS taxed?/ Is PMS a tax inefficient option?

Ans. A PMS investor is taxed on the capital gains whenever the portfolio manager sells any holdings in the PMS. It is true that Mutual Fund is more tax efficient than PMS since a mutual fund investor has to pay tax on capital gains only when they redeem their mutual fund units and not when the fund manager sells any holdings. However, PMS strategies having a low churn rate are likely to be relatively tax efficient.

Q5. Is there a key man risk in PMS?

Ans. We have seen star fund managers of mutual funds being poached by peers many times in the past. We have also seen fund performance either improve or deteriorate upon entry or exit of fund managers and CIOs. However, for a portfolio manager of PMS, the PMS is their baby and hence the risk of their exit is mitigated.

Q6. Is it possible to make a staggered investment in PMS?

Ans. While you are required to invest at least Rs 50 lakh to start a PMS, the portfolio manager can maintain cash in your portfolio and deploy it in equity in a staggered manner depending on market valuations or events that they might be awaiting. Also, since PMS strategies are generally more concentrated than mutual fund schemes, they would buy only those scrips in which the portfolio manager finds valuation comfort. Moreover, Rs 50 lakh can be allocated across PMS strategies under a PMS firm depending on the valuations of various categories they belong to. You can also start a PMS with Rs 50 lakh and keep adding to it in a staggered manner if possible.

Monthly Mantra

The stock market operates in cycles of highs and lows. Although this is old and known, whenever a new cycle begins, everyone acts surprised. Every single time! Zoom out and don't be surprised the next time it happens.

Cartoon of the Month

Good News!

1. Credit quality of Indian companies continued to strengthen in first half of the current financial year as they maintained the strong performance of FY22 and FY23, according to rating agencies. Strong domestic consumption and investments led to both investment and non-investment grade companies seeing an improvement in their credit profiles.

2. The Confederation of Indian Industry's Business Confidence Index (CII-BCI) rose to a three quarter high of 67.1 in the second quarter (July-September) of FY24 on account of resilient domestic demand amid the global uncertainty. "The uptick noted in the index was driven by resilient domestic demand along with sustained government spending and deleveraged balance sheets of corporates and banks, even as the global scenario remained grim," said the latest report by the industry body.

3. The total number of income tax returns (ITRs) filed by personal income tax filers (PIT), individuals and Hindu Undivided Family (HUF) rose 94% between FY15 and FY23, according to time series data released by the Income-tax department recently. As many as 74.6 million PIT returns were filed in FY23, as against 38.4 million in FY15. A host of factors such as digitisation of tax administration, easing compliance burden, rise in income levels, and increased coverage of TDS regime had contributed to the growth in the number of tax filers, as per experts.

4. The hotel industry is back with a bang after what an hotelier calls the "dark days" that lasted nearly two and a half years due to the Covid pandemic. The recovery that began in the second half of FY 22 has gathered steam, aided by increasing tourist flows and the numerous G20 meetings. The cricket fever, the ensuing festive season and the Christmas and New Year holidays will ensure that the good times continue to roll. As a result, the average occupancies in the country are now at about 65% across segments and 70% in key metros.

5. The government will bid out over ₹2 lakh crore worth of road projects on the build-operate-transfer (BOT) model by March 2024, giving a renewed push to the public-private partnership in road construction, road transport and highways minister Nitin Gadkari has said. This shift from the existing emphasis on engineering, procurement, and contract (EPC) model will drive private players to build better quality roads because they have to maintain them for 15 years, Gadkari told.

6. The National Highway Authority of India (NHAI) has awarded two toll, operate and transfer (TOT) bundles 11 and 12 of a combined length of 400 km for Rs 6,584 crore, which is Rs 553 crore higher than the bids received in the first round that was later called off by the government. Till now, NHAI has monetized 1614 km of projects for Rs 26,366 crore (excluding ToT bundle 11 and 12) through ToT and 636 km of projects for Rs 10,200 crore through InVIT, it said. "The Government has been very supportive and encouraging to achieve the national monetization targets. I am pleased that we have raised Rs. 6,584 crore from these two bundles, which will greatly contribute towards the development of a world class National Highway Network in the country," NHAI chairman Santosh Kumar Yadav said.

Top Personal Finance News – October 2023

1. Customers to receive alerts when their credit information report is accessed by lenders: RBI asks CICs Click here
2. RBI revises bulk FD limit for these banks to Rs 1 crore Click here
3. Health insurance policies beat motor covers in premium Click here
4. RBI fines ICICI Bank, Kotak Mahindra Bank for defaulting in fraud reporting, loan recovery rules Click here
5. Bank of Baroda (BoB) World app scam could be tip of iceberg, RBI should appoint IT auditors in banks: Forum Click here
6. Mutual fund SIP account addition reaches record 3.7 million in September Click here
7. Attention SBI customers: State Bank of India on why you are facing UPI snags Click here
8. RBI bars BoB from taking new customers onto mobile app; allegations of mobile no. linking malpractices Click here
9. GST Council likely to clarify premium on life insurance Click here
10. RBI urges caution on rising personal loans, tells Banks & NBFCs to look for signs of nascent stress Click here
11. RBI hikes UCBs Gold Loan limit for bullet repayments, announces new card tokenisation channel Click here
12. Quick, easy personal loans may become difficult now as RBI tells banks, NBFCs to be more careful Click here
13. 4 myths and facts about financial planning you should know Click here
14. 5 core SBI banking services at your doorstep: State Bank of India launches 'Mobile Handheld Device' Click here
15. How falling household savings affect the economy Click here