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I-CAN COMMUNIQUÉ

JULY 2023

MONTHLY NEWSLETTER – JULY 2023

Sensex : Up 2.98 % Nifty : Up 2.78 %	
Best performing sector: Defence (13.7 %)	Worst performing sector: Media (- 0.37%)
Best performing Global index: Merval (Argentina) (24.1 %)	Worst performing Global index: KLSE Composite (- 1.4 %)
Indian Rupee: +0.56%	Gold (International): - 1.88 %

MACRO ECONOMIC HIGHLIGHTS

Retail inflation hit a 25-month low in May, driven by easing food prices, offering relief to the Reserve Bank of India (RBI) and raising the possibility of the central bank's monetary policy committee keeping interest rates in the upcoming meeting unchanged. India's Wholesale Price Index (WPI)-based inflation recessed further into deflationary territory in May, falling to over seven year low at minus 3.48 per cent, from minus 0.92 per cent in April, data released by the Ministry of Commerce and Industry showed. The wholesale inflation was 16.63 per cent in May 2022. Earlier, it was minus 3.7 per cent in October 2015. Rajani Sinha, chief economist, CARE Ratings, said, "The contraction was more due to a sharper deflation in the fuel and light category owing to a broad-based decline in mineral oil prices. The prices of manufactured products eased due to an overall decline in global commodity prices." Deepak Sood, secretary general, Associated Chambers of Commerce and Industry of India, says prices are softening for most items, even as there is a gap between WPI-measured inflation and Consumer Price Index-gauged retail inflation. "Negative trajectory in wholesale prices should help the overall input cost in the value chain. While the trend is expected to continue, it is important to see how the monsoon plays out as food prices are deeply influenced by rains," he added. Earlier, the six-member monetary policy committee of the Reserve Bank of India (RBI) had decided to maintain the status quo in the repo rate for the second consecutive review meeting, basing itself on easing inflation and brighter growth prospects. Also, it had decided to return to its primary objective of targeting headline inflation of 4 per cent, which was kept in abeyance in the past three years. The RBI had, however, emphasized that its decision to pause should not be seen as a "pivot".

The United States consumer inflation cooled for an 11th straight month in May, the Labor Department said on 13 June, reported news agency AFP. The CPI rose 0.1 percent in May, decelerating from 0.4 percent in April, the Labor Department said. Excluding the volatile food and energy components, consumer inflation was up 5.3 percent over the last 12 months.

The Centre's direct tax collections for the FY 2023-24, jumped by 11 per cent to stand at ₹3,79,760 crore, as compared to ₹3,41,568 crore in the corresponding period of the preceding FY 2022- 23. As per the ministry, as on June 17, the net direct tax collection of ₹379,760 crore includes corporation tax (CIT) at ₹1,56,949 crore (net of refund) and personal income tax (PIT) including securities transaction tax (STT) at ₹2,22,196 crore (net of refund). The gross collection of direct taxes (before adjusting for refunds) for the FY 2023-24 stands at ₹419,338 crore as compared to ₹371,982 crore in the corresponding period of the preceding financial year. The advance tax collections for the first quarter of FY 23-24 rose by 13.7 per cent to stand at ₹116,776 crore. This is against advance tax collections of ₹102,707 crore for the corresponding quarter last fiscal. The advance tax collection comprises of corporation tax (CIT) at ₹92,784 crore and personal income tax (PIT) at ₹23,991 crore.

A set of high-frequency indicators, including goods and services tax (GST), manufacturing purchasing managers' index (PMI), passenger auto sales, and Unified Payments Interface (UPI) transactions, painted a robust picture of the economy in FY24. The manufacturing PMI hit a 31-month high of 58.7 in May, driven by a record expansion in input stocks and a strong increase in new orders and output, S&P Global said. Gross goods and services tax (GST) collection in May rose 12 per cent from the year earlier to Rs 1.57 trillion, indicating that the economy is holding firm despite external headwinds. The auto industry recorded its highest ever May sales (despatches to dealers) of domestic passenger vehicles (PVs) at 334,802 units, growing 13.5 per cent year-on-year, amid a better semiconductor chip supply and high demand for sport utility vehicles. UPI transactions in May scaled a new high of Rs 14.3 trillion in value and 9.41 billion in volumes, rising 2 per cent and 6 per cent, respectively.

The data released by the National Statistical Office showed gross domestic product (GDP) growth of 6.1 per cent in the March quarter and 7.2 per cent in FY23. The robust GDP data and encouraging signs of high-frequency indicators led to a spate of upward revisions in FY24 GDP growth forecasts by analysts.

Private investment activity looks robust and domestic monetary and credit conditions remain supportive of growth in FY24," said Soumya Kanti Ghosh, chief economic advisor, State Bank of India. "We are now factoring in a pickup in growth momentum in FY24. We are upgrading our baseline forecast from 6.2 per cent to 6.7 per cent," Ghosh added.

With the May figure, gross GST has crossed Rs 1.5 trillion for the fifth time since the implementation of the indirect tax regime, making it a new base for the current fiscal year. Strong growth in the manufacturing PMI came after the March quarter GDP data showed 4.5 per cent growth in manufacturing after two consecutive quarters of contraction.

India's services sector maintained strong growth in May, according to a survey by S&P. The India Services PMI Business Activity Index fell to 61.2 from 62 the previous month, but remained above the threshold that defines growth. The results reflect the resilience of the country's demand and growth, as well as expansion in new export business for the fourth straight month. The increases in output were, however, mirrored by rising input prices, which have risen at the fastest rate since last December.

Indian economy is expected to clock an average growth rate of 6.7 per cent till 2026-27 fiscal driven by domestic consumption, S&P Global Ratings Senior Economist (Asia Pacific) Vishrut Rana said. He said the economic growth in the current fiscal is expected to come in around 6 per cent, lower than 7.2 per cent clocked in 2022-23.

India is likely to grow at 6.3% in this financial year, Fitch ratings said, revising its forecast from the 6% projected earlier.

Moody's said the Indian economy is expected to clock a 6-6.3 per cent growth in June quarter, and flagged risks of fiscal slippage arising from weaker-than-expected government revenues in the current fiscal.

REFORMS

The Securities and Exchange Board of India (Sebi) tightened the disclosure requirements for foreign portfolio investors (FPIs) in a bid to get a better handle on them and prevent the possible circumvention of minimum public shareholding (MPS) and takeover norms. The Sebi board also approved reducing the time period for the listing of shares in public issues from the existing six days to three days from the date of issue closure. It, however, deferred a decision on overhauling cost structures, or the so-called total expense ratio (TER), for the Rs 43-trillion mutual fund (MF) industry. The markets regulator mandated additional granular disclosures regarding ownership, economic interest, and control of FPIs who have more than half of their holdings in a single corporate group or hold equity assets of more than Rs 25,000 crore. Some entities such as sovereign funds, public retail funds, and exchange-traded funds (ETFs) have been exempted from making additional disclosures. Existing FPIs now have three months to bring down their single-group exposure to 50 per cent or comply with additional disclosure requirements.

With an aim to safeguard investors' money from misuse and default by stock brokers, Sebi introduced a supplementary process for trading in the secondary market based on blocked funds in an investor's bank account, instead of transferring them upfront to the trading member. This is similar to Application Supported by Blocked Amount (ASBA)-like facility already available for the primary market which ensures that money from an investor gets moved only when an allotment happens. The new facility will become live by January 1, 2024, the Securities and Exchange Board of India (Sebi) said in a circular. Under the framework, funds will remain in the account of client but will be blocked in favour of the Clearing Corporation (CC) till the expiry date of the block mandate or till block is released by the CC, or debit of the block towards obligations arising out of the trading activity of the client, whichever is earlier. Further, settlement for funds and securities will be done by the CC without the need for handling of client funds and securities by the member. The process safeguards clients' assets from misuse, brokers' default and consequent risk to their capital.

SEBI has prescribed a standard format for seeking trading preference of clients for same product in different exchanges. Currently, clients have to give separate authorisation letter in case they want to trade on different stock exchanges for the same segment or different segment. Based on the representations received and in consultation with stock exchanges, it has been decided to standardise the format of “Trading Preferences” in order to ensure that clients are permitted to access all the stock exchanges in which the stock brokers are registered for the same segment, said SEBI. The provision comes into effect from August 1.

SEBI has directed online bond platforms (OBPs) to desist from offering debt securities that are not listed or are not proposed to be listed, in contravention of their regulatory framework. According to SEBI, certain OBP are “offering unlisted bonds/other products on a separate platform/web site and have not divested of such offerings” and certain OBPs “have a link on the online bond platform/web site to another platform/ web site for transacting in unlisted bonds/other products.” SEBI has revised Clause 5.2 of the OBP circular to include a few new product categories such as government securities and listed sovereign gold bonds.

Should you book profits?

Market has recently rallied quite a lot in a short span. “Should I book some profits?” is one of the most common questions I hear these days. Hence, I decided to address it in detail. If I were to answer it in one word, it would be “No”. Instead, the questions one should ask themself is- “Why did I invest in equity in the first place? Is my objective only to protect my capital or is it also to let the power of compounding work in my favour such that I let my profits make me more profits and meet my financial goals comfortably? If the latter is true then why should I withdraw my profits when compounding has just kicked in?”

I think the fear comes from one's experience of investing at peaks and seeing their portfolio in losses, even though notional, for a prolonged period. Even if somebody had agreed to hold their equity investment for over five to ten years, even if they were fully aware of the volatile and cyclical nature of equity markets, one year might have felt like ten if the market had gone through a correction during that period.

However, following are certain aspects which one must consider and questions which they must be able to answer before booking profits in equity.

1. Can one predict peak or bottom of any market cycle accurately? Let alone retail investors but how many market experts have been able to predict it accurately more often than not? One must assess their success rate of predicting markets in the past before making any decisions based on such predictions and executing them.

2. Just like there is a downside risk while investing in equity, there is also an upside risk while partially or completely exiting from equity. Are they aware of this upside risk?

3. Growth in equity is almost always non-linear. If we were to count the number of days which significantly contributed to the market upside during any year or market cycle, it would hardly be a span of a few weeks or months. However, these days are often scattered across the cycle. Hence, if one does not remain invested in equity on those days, there are high chances that they would end up making significantly lower returns if compared to the indexes, and even lower if compared to many of the actively managed mutual fund schemes and strategies under portfolio management services.

4. Another question one needs to ask themself is what they would do with the redeemed amount. Do they have an investment option accessible to them which can potentially yield better returns than equity without involving a higher risk? Let alone beating equity returns but are there even options which can beat inflation with their post- tax returns without involving any risk? It seems highly unlikely.

5. Now, if one is thinking of booking profits with an objective to reinvest upon a subsequent market correction, what is the probability of it actually happening? What if the market continues to rally or stays range bound and does not correct so as to provide an opportunity to reinvest? One should simply revisit their past experience of investing and count the number of times they could actually reinvest upon a market correction at a market level which was lower than the level at which they had booked their profits. If it has happened less than fifty percent of the times then one should refrain from doing so in the future.

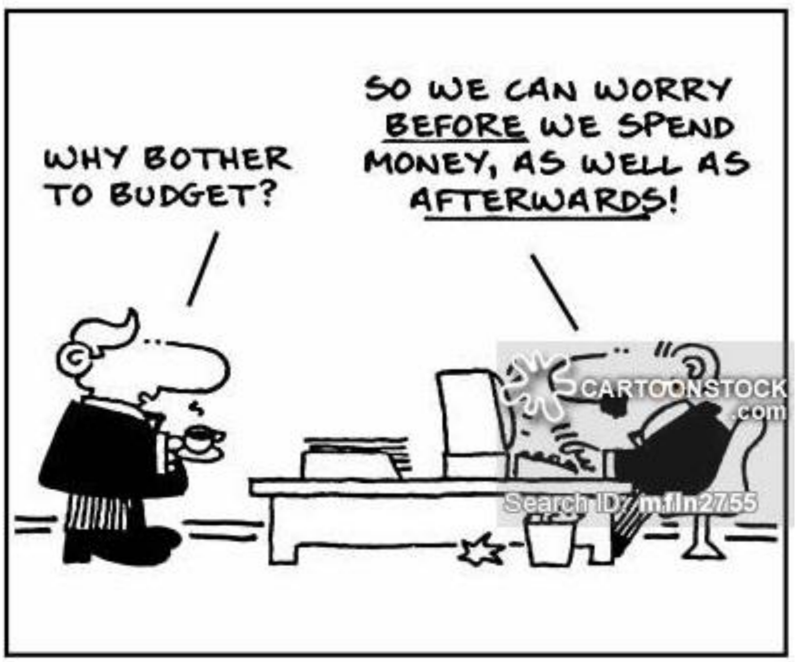
6. Profit booking would also attract capital gains. Can one predict the market so accurately that they would re-enter the market at a level that could also justify bearing capital gains? It seems very difficult.

There can of course be certain exceptions when booking profits or even completely exiting equity can make more sense than staying invested in it. For example, if the financial goals toward which the investment is being made is nearing, that is, the goal is within a year from now, one should decide an exit strategy with the help of their investment advisor and start switching from equity to liquid funds. However, for long term investors, it definitely makes more sense to not only stay invested but also continue investing in equity in a staggered manner even when the market has rallied in the recent past. The whole effort of timing the market is very hard to justify. However cliché and overused it may sound but it is absolutely true that “time in the market is much more important than timing the market”.

Monthly Mantra

Skills buy you income. Income buys you assets. Assets buy you freedom.

Cartoon of the Month



Good News!

- India's current account deficit narrowed sharply in the fourth quarter of fiscal year 2022-23, to $1.3 billion owing to moderation in trade deficit and robust services exports. The Q4 CAD dropped to 0.2% of GDP. Further, in Q4, FDI recorded robust sequential rise to $6.4 billion.

- India's gross domestic product (GDP) print for the January-March quarter (Q4FY23) and FY23 sprang a positive surprise, despite headwinds. This has prompted many economists to revise their FY24 growth forecast upwards. Real GDP grew 7.2% in FY23, surpassing the government's advance estimates as well as Reserve Bank of India's (RBI) projection.
- The government is working on a production-linked incentive (PLI) scheme worth as much as ₹15,000 crore to encourage the setting up of grid-scale battery storage, with the draft of the scheme expected to be released within a month as told by two people familiar with the development to Mint.

- India will have the capacity to store 70 million tonnes (mt) more foodgrains over the next five years. With this, storage facilities will be available for nearly three-fourths of foodgrains produced in the country. Currently, the country has storage facilities for 145 mt which is around 47 per cent of the total production. This results in a lot of wastage of not just primary products but also value-added ones. The Union Cabinet, in its meeting, approved the constitution and empowerment of an Inter-Ministerial Committee (IMC) for the facilitation of the "world's largest grain storage plan in the cooperative sector". The scheme will have an outlay of ₹1-lakh crore which will be mobilised through the Agriculture Infrastructure Fund (AIF), Agricultural Marketing Infrastructure Scheme (AMI), PM Formalisation of Micro Food Processing Enterprises Scheme (PMFME) and PM Kisan SAMPADA Yojana (PMKSY).
- Record Rs 64,000 crore worth of six power transmission projects for connecting green energy installations have been approved by the National Committee on Transmission (NCT) and are likely to be awarded this year through the bidding route.

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