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I-CAN COMMUNIQUÉ

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MONTHLY NEWSLETTER – OCTOBER 2023

Sensex : Up 1.14 %	
Nifty : Up 1.50 %	
Best performing sector: PSU Bank (16.14 %)	Worst performing sector: Media (-1.48 %)
Best performing Global index: Jakarta composite (- 0.38%)	Worst performing Global index: Merval (Argentina) (-16.76 %)
Indian Rupee: - 0.35 %	Gold (International): - 4.95 %

MACRO ECONOMIC HIGHLIGHTS

India's retail inflation eased in August as food prices moderated, but remained above the upper end of the central bank's target band for a second consecutive month, keeping policymakers watchful. Annual Retail inflation in August was 6.83%, compared with 7.44% in July, a 15-month high, according to data released by the ministry of statistics. The August print was lower than the 7% estimate of 45 economists polled by Reuters. Food inflation, which accounts for nearly half of the overall basket, was up 9.94% in August compared with a rise of 11.51% in July. Food prices have been a key concern for policymakers since last year as erratic weather conditions have hurt the output of vegetables, milk and cereals. Inflation has been above the central bank's 2%-6% target band for seven months out of the last 12. Vegetable inflation eased to 26.14% in August from 37.34% in the previous month. Cereal

inflation in August eased to 11.85% from 13.04% in July.

Wholesale inflation in India declined for the fifth consecutive month in August, reaching 0.52%. This provides the Reserve Bank of India with comfort to hold rates ahead of the Monetary Policy Committee meeting in October. The fall in commodity prices has resulted in lower input costs for producers, leading to limited pressure on consumer prices. However, wholesale prices may rise later in September due to rising crude oil prices.

The US Federal Reserve unanimously voted on Wednesday, September 20 to hold its overnight interest rates at 5.25 per cent - 5.50 per cent, continuing its July stance, while forecasting an additional 25 basis points (bps) rate hike before the end of the year to bring down sticky inflation. The US monetary policy is kept significantly tighter through 2024 than previously expected.

The Bank of England (BoE) on 21st September held its key interest rate at 5.25 per cent following 14 hikes in a row to fight soaring inflation. The decision to freeze the borrowing costs came one day after official data revealed a cooling of consumer price rises in Britain. The decision comes to the relief of millions of homeowners who are facing higher mortgage rates.

Indian manufacturing continued its strong growth momentum in the second quarter amid buoyant demand in domestic and international markets, as the Purchasing Managers' Index (PMI) for the sector rose to a three-month high of 58.6 in August from 57.7 in July, according to a private survey.

“[The survey] showed a robust improvement in manufacturing sector conditions across India, as new orders and output increased at the quickest rates in nearly three years during August. Firms geared up to handle rising demand by scaling up buying levels and rebuilding their input stocks at the second-strongest pace in 18-and-a-half years of data collection,” said the survey by the global credit rating agency S&P global.

Whereas growth in India's dominant services sector lost some steam in August as the headline Purchasing Managers' Index (PMI) figure fell to 60.1 from a 13-year-high of 62.3 in July as sales slowed down amid a record increase in new export business, said a survey by S&P Global. “Total new business increased for the twenty-fifth month in a row during August. Advertising and robust demand for services were among the reasons listed for growth. Although softer than in July, the overall expansion in sales was one of the strongest seen in 13 years,” said the credit rating agency.

India's goods and services tax collections grew to Rs 1.59 lakh crore in August, up 11 per cent on a year-on-year basis, the Finance Ministry said in a statement. The collection from Goods and Services Tax (GST) was Rs 1,43,612 crore in August 2022. Of the Rs 1.59 lakh crore in August, CGST component was Rs 28,328 crore, SGST Rs 35,794 crore, IGST Rs 83,251 crore (including Rs 43,550 crore collected on import of goods) and cess Rs 11,695 crore (including Rs 1,016 crore collected on import of goods).

The growth of eight key infrastructure sectors rose to a 14-month high of 12.1 per cent in August 2023 compared to 4.2 per cent a year ago, on expansion in production of coal, crude oil, and natural gas, government data showed. The core sector or infrastructure output, which comprises eight sectors including coal and electricity, accounts for nearly 40 per cent of industrial output. “The combined Index of Eight Core Industries (ICI) increased by 12.1 per cent (provisional) in August 2023 as compared to the

Index of August 2022,” said Ministry of Commerce and Industry on September 29.

The Union Ministry of Finance on 22nd September released the Monthly Economic Review for August 2023, stating to remain comfortable with a 6.5 percent real GDP growth estimate for FY24 with symmetric risks.

Global ratings and research agency Moody's Investor Service, raised India's growth forecast to 6.7% in 2023 from 5.5% projected earlier, as the Indian economy recorded 7.8% growth in the April-June quarter.

Nomura has upgraded its stance on the Indian market from 'neutral' to 'overweight'. In the Asia (excluding Japan) portfolio, the brokerage has recommended a weight of 18.2 per cent, 100 basis points (bps) higher than India's weightage in the benchmark MSCI Asia ex-Japan index.

S&P in its latest quarterly economic update for Asia-Pacific on Monday has kept its FY24 growth forecast for India unchanged at 6 per cent due to the impact of a slowing world economy, delayed effects of rate hikes, and the rising risk of subnormal monsoons. “Notwithstanding the strong expansion in India in the June quarter, we maintain our forecast for financial year 2024 (ending March 2024), given the slowing world economy, the delayed effects of rate hikes, and the rising risk of subnormal monsoons,” the report notes.

Fitch Ratings retained India's growth forecast for the current fiscal at 6.3 per cent saying the Indian economy continues to show resilience despite tighter monetary policy and weakness in exports, but upped year-end inflation projection on El Nino threat.

REFORMS

The Reserve Bank of India (RBI) announced that it will discontinue the incremental cash reserve ratio (I-CRR) in a phased manner. "On a review, it has been decided to discontinue the I-CRR in a phased manner," RBI said in a release. Based on an assessment of current and evolving liquidity conditions, it has been decided that the amounts impounded under the I-CRR would be released in stages so that system liquidity is not subjected to sudden shocks and money markets function in an orderly manner, it added. RBI will release 25% of the I-CRR maintained on September 9 and another 25% on September 23. The remaining 50% of the I-CRR maintained will be released on October 7, the central bank said.

The RBI issued revised norms for classification, valuation, and operation of investment portfolios of commercial banks, aligning them with global standards and best practices. The revised 'Reserve Bank of India (Classification, Valuation and Operation of Investment Portfolio of Commercial Banks) Directions, 2023' will be applicable from April 1, 2024, to all Commercial Banks excluding Regional Rural Banks. As per the revised norms, banks will have to classify their entire investment portfolio under three categories - Held to Maturity (HTM), Available for Sale (AFS) and Fair Value through Profit and Loss (FVTPL). "Held for Trading (HFT) shall be a separate investment subcategory within FVTPL. The category of the investment shall be decided by the bank before or at the time of acquisition and this decision shall be properly documented," the Reserve Bank said. In view of the significant development in global financial reporting standards, the linkages with the capital adequacy framework as well as progress in the domestic financial markets, revised regulatory framework for the investment portfolio has been issued, the RBI said.

The RBI said lenders would have to examine all aspects relating to wilful default on accounts with outstanding dues of Rs 25 lakh or more and identify wilful defaulters within six months of a

loan becoming a non-performing asset (NPA). The regulator released draft norms on wilful and large defaulters. It has allowed non-banking finance companies and cooperative banks to identify them. A wilful defaulter is a borrower or a guarantor who has defaulted without being constrained to do and the outstanding amount is Rs 25 lakh and above. A large defaulter is one whose amount in default is Rs 1 crore and above. For calculating the cut-off point of Rs 1 crore, the unapplied interest, if any, should be included. For an account that is on the list of wilful defaulters and has been resolved either through the Insolvency and Bankruptcy Code or the RBI's norms, resulting in a change in management and control of the entity or business enterprise, the name of such a defaulter should be removed from the list, the draft norms said. If a wilful defaulter has entered into a settlement with the lender, the name of the defaulter should be removed from the list only when the borrower has paid the amount due. The name should not be removed for part-payment. "The compromise settlement with the wilful defaulter shall be in terms of the board approved policy of the lender. Such policy shall include guidelines on staff accountability examination, reporting of the compromise/settlement to the board, higher upfront payment if any, etc," the norms said.

SEBI has proposed to create an independent body called the Performance Validation Agency (PVA) to validate the claims and performance related to investment advice and buy/ sell/hold recommendations by SEBI-registered intermediaries such as investment advisers, research analysts, portfolio managers, asset managers and stock brokers. A PVA would be required to process the data and performance claims of all such intermediaries and will be allowed to charge fees. Performance claims will be validated based on parameters such as returns, risk, volatility and other parameters as decided by industry forums in consultation with PVA and SEBI. The body will also validate claims of the actual profit made by clients on the basis of advice given by the intermediaries.

The government has exempted payments made for goods imported through ocean freight from 5 per cent integrated GST with effect from October 1. The Finance Ministry has notified changes to the IGST Act with regard to payment of integrated GST on 'ocean freight' on imported goods with effect from October 1. Currently, importers are required to pay 5 per cent GST under the Reverse Charge Mechanism. The government will shortly issue a notification making it compulsory for pharmaceutical companies to implement revised Good Manufacturing Practices (GMP) to improve quality in the face of children said to have died from toxic cough syrup and eye drops that allegedly caused infections. "The idea is to bring in quality and reduce manufacturing of those drugs which are not of standard quality. A need has been felt to revisit and implement GMP at par with global standards. A notification will be put up soon," said a senior government official.

The Income Tax Department has notified new angel tax rules that comprise a mechanism to evaluate the shares issued by unlisted startups to investors. The Finance Act, 2023, brought in an amendment to bring the consideration received from non-residents for issue of shares by an unlisted company within the ambit of section 56(2)(viib) of the Income-tax Act, 1961(the Act), which provides that if such consideration for issue of shares exceeds the Fair Market Value (FMV) of the shares, it shall be chargeable to income-tax under the head 'Income from other sources'. Keeping in line with the commitment of the Government to involve stakeholders in the drafting of the law, suggestions and feedback were invited from stakeholders and general public on the Draft

Rule 11UA for valuation of methods for calculating the Fair Market price vide Press Release dated 19th May, 2023. Taking into consideration the suggestions received in this regard and detailed interactions held with stakeholders, Rule 11UA for valuation of shares for the purposes of section 56(2)(viib) of the Act has been modified vide notification no. 81/2023 dated 25th September, 2023.

Bursting Myths- Mutual Funds

- **Myth 1-** Mutual Funds invest in stock markets. Hence this option is suitable only to those investors who have an aggressive risk profile.
- **Fact-** Mutual Funds invest across asset classes such as equity, debt, arbitrage, gold etc. Moreover, there are certain categories of Mutual Funds which provide exposure to multiple asset classes. Thus, one can always find a suitable solution to their investment need through mutual fund route.
- **Myth 2-** Debt Mutual Funds are risk free
- **Fact-** Debt Mutual Funds also carry risks. Two most prominent risks under this category are Interest rate risk and Credit risk. Debt mutual funds can also deliver negative returns at some point in time. However, they are most likely to recover within a few days if the fall in their NAV is attributable only to change in yields and not to any defaults. Also, schemes showing higher returns could be subjected to higher risks. Hence there are various aspects to be considered while selecting schemes under debt category.
- **Myth 3-** Investing in equity mutual funds is very easy and should be done based on past performance.
- **Fact-** There are certain categories and sectors in equity which tend to be highly cyclical. Thus, mutual fund schemes having a high allocation to a category or sector which happens to be going through an up cycle would tend to deliver high returns and perform better than others. Similarly, different investment strategies become favourable in the market at different points in time depending on several factors. Thus, there are several aspects such as consistency in fund performance, fund manager's credibility, investment philosophy and process and investment portfolio which must be considered while selecting schemes under equity category.
- **Myth 4-** If a scheme shows good returns in absolute terms, then it is a good scheme.
- **Fact-** Performance of every scheme must be assessed on a relative basis ie compared against a suitable benchmark which could be an appropriate index or category average.
- **Myth 5-** Mutual Funds are only for those investors who can't select stocks on their own
- **Fact-** Investors having a good level of knowledge regarding stock markets must also consider investing a good portion of their corpus in Mutual Funds since investing in stocks directly can be an extremely demanding and time consuming task. Also, Mutual Funds would help to avoid concentration risk and personal bias in stock selection.

Monthly Mantra

Six months of consistency with respect to exercise, investment and skill acquisition can potentially take you to a different place physically, mentally and financially.

Cartoon of the Month



Good News!

- India's current account deficit (CAD) narrowed to \$9.2 billion (1.1 per cent of GDP) in Q1 (April-June) 2023-24, from \$17.9 billion (2.1 per cent of GDP) in Q1 2022-23, according to RBI. "The improvement in CAD was mainly due to a lower trade deficit of \$56.6 billion, as against \$63 billion last year. This improvement was mainly due to declining commodity prices globally, which continued in this financial year," said Madan Sabnavis, Chief Economist, Bank of Baroda.
- The Lok Sabha passed the Women's Reservation Bill with 454 votes. The Nari Shakti Vandan Adhiniyam will grant 33% seats to women in the Lower House of Parliament as well as state legislative assemblies. "The proposal has been passed with more than a two-thirds majority of the members present in the house," Speaker Om Birla announced after the voting. 454 MPs voted in favour of the bill while two MPs voted against it. The bill will now have to be approved by the parliament's upper house and at least half of India's state assemblies before being promulgated into a law.
- JPMorgan said it will include India in its widely tracked emerging market debt index, setting the stage for billions of dollars of inflows into the world's fifth-largest economy. India's local bonds will be included in the Government Bond Index-Emerging Markets (GBI-EM) index and the index suite, benchmarked by about \$236 billion in global funds according to JPMorgan. Inclusion will start on June 28, 2024, and extend over 10 months with 1% increments on its index weighting, as India is expected to reach the maximum weighting of 10%, JPMorgan said.
- The Indian auto mobile industry posted its highest ever monthly domestic passenger vehicle (PV) sales at 360,897 units in August, up 10.4 per cent year-on-year (Y-o-Y). This came ahead of festival season and on the back of growth in the overall economy, an uptick in production due to a better chip supply, and high demand for SUVs.
- Union Minister of Health and Family Welfare Mansukh Mandaviya launched the Rs 5,000 crore Promotion of Research and Innovation in Pharma and MedTech sector (PRIP) scheme, which aims to transform India's pharma medtech industry from a cost-based one to innovation-based. Terming it as a clarion call for Aatmanirbharta in the pharma sector, Mandaviya stressed that India needs a strong and vibrant research environment.
- Hello! UPI — Soon you will be able to pay through Unified Payments Interface (UPI) using voice-based inputs, instead of text-based commands. Shaktikanta Das, Governor of the Reserve Bank of India (RBI) has recently launched a slew of new offerings, like Conversational Payments on UPI, during the Global Fintech Fest 2023.

Top Personal Finance News – September 2023

1. Will PPF, Sukanya Samriddhi, SCSS interest rates be hiked for December quarter? [Click here](#)
2. Has the last date to add nominee to mutual funds been extended? [Click here](#)
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10. Children from void, voidable marriages are legitimate, can claim rights in parents' properties: SC [Click here](#)