Celebrating 10 years of Creating Wealth

I-CAN COMMUNIQUÉ

MAY 2023

MONTHLY NEWSLETTER – MAY 2023

Sensex : Up 5.44% Nifty : Up 5.76%	
Best performing sector: Realty (16.78%)	Worst performing sector: Technology (-1.25%)
Best performing Global index: Merval (Argentina) (18.4%)	Worst performing Global index: Nasdaq Bank (-4.1%)
Indian Rupee: +0.56%	Gold (International): +0.48%

MACRO ECONOMIC HIGHLIGHTS

In a surprise move, in the first bi-monthly monetary policy of FY24, RBI kept the policy repo rate under the liquidity adjustment facility (LAF) unchanged at 6.50%. Subsequently, it also kept the standing deposit facility (SDF) rate unchanged at 6.25%, while the marginal standing facility (MSF) rate and the Bank Rate were also unchanged at 6.75%. The reason for this decision was that the actions taken over the past year are still affecting the economy and will continue to have an impact on future inflation levels. However, RBI did not change its policy stance and remained focused on the withdrawal of accommodation to ensure that inflation progressively aligns with the target while supporting growth.

The Consumer Price Index (CPI) inflation fell to a 15-month low of 5.66% in March, according to data from National Statistical Office (NSO). The inflation numbers have seen a decline from 6.44% in February and 6.95% in the year-ago period. The decline in inflation was mainly due to the reduction in food prices to 4.79% as vegetable prices eased. The current level of inflation is within the target range of the Reserve Bank of India (RBI) which targets a rate between 2% to 6%. India's annual Wholesale Price Index (WPI)-based inflation declined to a 29-month low of 1.34 per cent in March 2023 as input prices continued to moderate, government data showed. The WPI inflation data was 3.85 per cent in February, 4.73 per cent in January 2023, and 14.63 per cent in March 2022. The food index inflation eased to 2.32 per cent in March from 2.76 per cent in February. For the primary articles segment, the inflation rate cooled to 2.40 per cent in March 2023 versus 3.28 per cent in February.

Despite a loss of momentum, services sector activities remained robust in March due to favourable demand conditions and new business gains. The seasonally adjusted S&P Global India Services PMI Business Activity Index eased to 57.8 in March from 59.4 in the previous month but remained in growth territory (above 50) for the twentieth successive month. “India’s service sector built on to the momentum gained in February with further increases in new business intakes and output at the end of the 2022/23 fiscal quarter. However, manufacturing has retaken the mantle as the main driver of growth,” Pollyanna De Lima, Economics Associate Director at S&P Global Market Intelligence, said. The seasonally adjusted S&P Global India Manufacturing Purchasing Managers’ Index (PMI) rose from 55.3 in February to 56.4 in March, signalling the strongest improvement in operating conditions in 2023 so far, and demand resilience. The March

PMI data pointed to an improvement in overall operating conditions for the 21st straight month. In PMI parlance, a print above 50 means expansion while a score below 50 indicates contraction.

Indian economy will grow at around 6.5 per cent in the current fiscal and will continue to be the fastest-growing major economy in the world, notwithstanding a modest cut in growth projections by multilateral lending agencies, Economic Advisory Council to the Prime Minister (EAC-PM) member Sanjeev Sanyal has said. Sanyal further said that given the uncertainties in the global economy, India's performance is clearly far ahead of any other comparable economy. Recently, the World Bank and the Asian Development Bank projected moderation in Indian economic growth between 6.3 per cent and 6.4 per cent due to a slowdown in consumption and challenging external conditions. The International Monetary Fund (IMF) also lowered India's economic growth projection for the current fiscal to 5.9 per cent from 6.1 per cent earlier. Yet India will continue to be the fastest-growing economy in the world.

REFORMS

SEBI has prohibited stock brokers and clearing members (CMs) from creating bank guarantees (BGs) from clients' funds with effect from May 1. Existing BGs created out of clients' funds will have to be wound down by September 30 this year. "Currently brokers and clearing members pledge client's funds with banks, which in turn, issue BGs to clearing corporations for higher amounts. This implicit leverage exposes the market and especially the client's funds to risks," Sebi said in a circular. The stock exchanges and clearing corporations will have to take stock of the current position of the BGs issued out of clients' funds by brokers and CMs and monitor the wind down to ensure implementation of the circular without any disruption of services to clients. For the purpose, stock exchanges and clearing corporations will put in place periodic reporting mechanisms for brokers and CMs.

SEBI came out with an advertisement code for investment advisers (IAs) and research analysts (RAs) whereby they have been prohibited from issuing statements which may mislead investors as well as from using superlative terms in their advertisements. However, factual details of any award received by them can be included. The new code, aimed at further strengthgening the conduct of IAs and RAs, will come into force from May 1. The advertisements should not also have any promise of assured return to investors, reference of past performances of IA and RA as well as use of Sebi logo. Besides, copies of advertisements should be retained by them for a period of five years. They will not be involved in games, leagues and competition, which involves distribution of prize money, gifts and medals, Sebi said. Further, Sebi said that an advertisement issued by an IA or a RA should contain their names, logo, office address, registration numbers.

SEBI has put in place a framework for upfront collection of funds from eligible issuers of debt securities to build the Settlement Guarantee Fund of the Limited Purpose Clearing Corporation (LPCC). The eligible issuers would be notified by the LPCC as per its risk management policy, SEBI said in a circular. LPCC is an entity established to undertake the activity of clearing and settlement of repurchase agreement transactions. Under the framework, SEBI said that an amount of 0.5 basis points of the issuance value of debt securities per annum based on the maturity of debt securities will be collected by the stock exchanges and placed in an escrow account before the allotment of the debt securities. The stock exchanges would transfer the amounts so collected to the bank account of the LPCC within one working day of the receipt of the amount and inform the details of the same to the LPCC. Details of the amounts so collected would also be disclosed by the stock exchanges on their website. Further, LPCC would provide an illustration of the calculation of the amounts to be contributed by the eligible issuers. The new framework will come into force from May 1, the regulator said.

The Reserve Bank of India (RBI) announced a framework for accepting 'green deposits' by banks and deposit-taking non-banking finance companies (NBFCs). The central bank has identified nine sectors in which the proceeds from these green bonds must be used. They are renewable energy, energy efficiency, clean transportation, climate change adaptation, sustainable water and waste management, pollution prevention and control, green buildings, sustainable management of living natural resources and land use, and terrestrial and aquatic biodiversity conservation. "The green deposits shall be denominated in Indian Rupees only," the framework said. While some of the banks and NBFCs have already started to accept green deposits, RBI has now decided to put out a framework, "with a view to fostering and developing a green finance ecosystem in the country", the regulator said. The RBI regulated entities have been told to put in place a comprehensive board-approved policy on green deposits, laying down all aspects in detail for the issuance and allocation of such deposits.

Reserve Bank has issued various guidelines to regulated entities (REs) to ensure transparency in disclosure of penalty interest. Under the guidelines, lending institutions have the autonomy to formulate board approved policy for levy of penal rates of interest. However, supervisory reviews have indicated divergent practices amongst the REs with regard to levy of penal interest/charges leading to customer grievances and disputes. The central bank said that determination of interest rates on credit facilities, including conditions for reset of interest rates, will be strictly governed by the relevant regulatory instructions issued and 'REs shall not introduce any additional component to rate of interest.' It added that penalty, if charged, shall be treated as 'penal charges' and not be levied in the form of 'penal interest' that is added to the rate of interest charged on the advances.

P2P Lending

People are always looking for something new in every aspect of life. So, when it comes to investing, they look for new options to park money. One such option gaining popularity among new age investors is peer to peer (P2P) lending platforms. Let us address this concept and find answers to some of the most commonly asked questions pertaining to it.

1. What is P2P lending?

It literally means lending to peers. There are many individuals who need money while there are also many individuals who have surplus to be parked for a certain tenure. P2P platforms provide infrastructure to people with a surplus to lend to people who are in need of credit. They raise money from investors and lend to borrowers just like any bank or NBFC.

2. Is it regulated?

RBI has set guidelines around how P2P lending platforms need to work. For instance, any company which wants to offer P2P lending services need to register for an NBFC-P2P license from the RBI.

3. How risky is it and how is the risk managed?

The credit score of borrowers seeking credit on such platforms is generally lower than that of those who borrow from leading banks and NBFCs. Thus, it is a risky product. However, these borrowers are credit starved and willing to seek credit at a high rate of interest. The high rate of interest creates a margin of safety and covers the credit cost in case of delinquencies for P2P platforms. Also, even if they may lend to individuals with a lower credit score, they use analytics to manage credit risk very well. They use technology extensively to assess creditworthiness of the borrowers. Based on this assessment, the borrowers are assigned to different risk buckets and charged interest accordingly. The amount raised from an individual is generally lent to over 100 accounts by the P2P platform, thus mitigating the concentration risk. They have similar processes for recovery of defaulting accounts as are followed by banks and NBFCs.

4. Who should invest in P2P lending options?

Since it is a risky product, investors with a high risk appetite should consider investing in it. It can form a part of the fixed income portion of one's overall asset allocation and is not a substitute for investing in equity for long term financial goals. It can provide better returns than traditional fixed income options like FD or bonds and improve the overall yield of one's portfolio.

Monthly Mantra

Making money, managing money and growing money are 3 different skills and all are necessary to build wealth.

Cartoon of the Month

Good News!

- Nine years and eight months since its launch, the balance in the Jan Dhan Yojana accounts is nudging the Rs 2-trillion mark, with nearly 486 million beneficiaries of these non-frills accounts at the end of last financial year, according to official data. Official sources said the continued growth in Jan Dhan deposits of around 8% in FY23 is proof of the scheme's efficacy as a tool for financial inclusion. The JAM Trinity – Jan dhan, Aadhaar, mobile – has stood the government in good stead in implementing large-scale, technology-enabled and real-time direct benefit transfers (DBTs) to improve economic lives of the low-income people, the sources added. Transfer of assorted subsidies and sops to the beneficiaries through DBT resulted in savings of `2.73 trillion between FY15 and FY21. The progress in financial inclusion is also corroborated by recent data released as part of the Multiple Indicator Survey 2020-21, which revealed that nearly 90% of people in the country had an account individually or jointly in any bank, other financial institutions or mobile money service provider.

- Large investment plans in some sectors might have driven a record surge in new projects in the March quarter of financial year 2022-23 (Q4FY23). The value of new projects soared in the three months ended March 31 to Rs 12.3 trillion, or more than the previous two quarters combined, according to data from capital expenditure (capex) numbers from project tracker Centre for Monitoring Indian Economy (CMIE). New projects rose 42.6 per cent year-on-year (YoY) from Rs 8.64 trillion in Q4FY22 and 78 per cent over the Q3 figure of Rs 6.9 trillion.

- Marking a significant change from the previous one, the Centre unveiled the Foreign Trade Policy (FTP) 2023 without a sunset clause, with a focus on boosting e-commerce exports to at least 10 per cent of the $2-trillion goods and services exports target by 2030. "We have to meet our export targets. We will achieve $2 trillion in exports by 2030, but we should ensure merchandise exports don't fall behind services exports," said Commerce Minister Piyush Goyal, while unveiling the FTP.

- The government expects work demand under the Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS) to ease sharply in FY24 on the back of improved economic activities, officials said. The new electronic attendance system, which aims to curb fake claims, will also aid in keeping the numbers contained. The government has budgeted ₹60,000 crore under the scheme for FY24, lower than the budget estimate of ₹73,000 crore and revised estimate of ₹89,400 crore for FY23. However, finance minister Nirmala Sitharaman has stated that more funds would be allocated for the scheme if required.

- India backed a "holistic" approach to multilateral development bank (MDB) reforms while pitching a staggered timeline for a capital increase to make it more acceptable to the membership. In her interaction with the G20 expert group on MDB reforms in Washington DC, finance minister Nirmala Sitharaman emphasised the need for a "transformative and not incremental" approach.

Top Personal Finance News – April 2023

1. Aadhaar enabled e-KYC jumps by 16% in March 2023; how you can obtain Aadhaar paperless offline e-KYC data Click here
2. Why EPF e-passbook facility is still down; other ways to view your passbook Click here
3. Today, there is no pure value. Nothing is so cheap: Taher Badshah, Invesco Mutual Fund Click here
4. Home loan demand dips in December qtr as rate hikes pinch Click here
5. AU Small Finance Bank launches bill payments via video banking on Bharat Bill Payment System; How to use Click here
6. CRED launches UPI peer-to-peer (P2P) payments: Important features Click here
7. How investors can track the impact of currency on their portfolio? Tarun Birani explains Click here
8. Small cap mutual funds offer 19% in 10 year. Want to invest? Click here
9. How to manage loans & credit rating, avoid defaults: Aparna Ramachandra Click here
10. Higher interest rates see money flowing to post office schemes Click here
11. Borrowers to get compensation for delay in correction of credit report by credit information companies Click here