Celebrating 12 years of Creating Wealth

I-CAN COMMUNIQUÉ

JUNE 2024

MONTHLY NEWSLETTER – JUNE 2024

Sensex : Up 3.5 % Nifty : Up 3.5 %	
Best performing sector: Defence (29.0 %)	Worst performing sector: Healthcare (-1.8 %)
Best performing Global index: Merval (Argentina) (14.2 %)	Worst performing Global index: Bovespa (-5 %)
Indian Rupee: + 0. 26%	Gold (International): + 2.07 %

MACRO ECONOMIC HIGHLIGHTS

The Indian economy showed signs of buoyancy in April, with retail inflation easing slightly to 4.83% in April, down from 4.85% in March, mainly due to falling fuel prices. However, food inflation remained elevated, data from the statistics ministry, showed. India's consumer price index (CPI)-based retail inflation has been easing since December 2023, when it rose 5.69%. CPI inflation remained above the central bank's target of 4% but has stayed within its tolerance range of 2-6% for the eighth consecutive month.

US inflation rose less-than-expected in April 2024, suggesting that inflation resumed its downward trend at the start of the second quarter in a boost to Wall Street expectations for a September interest rate cut by the US Federal Reserve. The US consumer price index (CPI) rose 0.3 per cent sequentially, according to data released by the Labor Department's Bureau of Labor Statistics on May 15. In the 12 months through April, the CPI increased 3.4 per cent year-on-year (YoY), which follows a 3.5 per cent rise in March 2024. The annual increase in consumer prices has dropped from a peak of 9.1 per cent in June 2022, however the progress has since slowed. The April CPI data marks the first month of slowing annual data since January 2024. The core CPI increased 3.6 per cent in the 12 months through April. This was the smallest YoY gain since April 2021- the slowest pace in three years, and followed a 3.8 per cent rise in March. The core CPI over the past three months increased an annualized 4.1 per cent, the smallest since the start of the year.

The US Federal Reserve announced its third interest rate decision for 2024 on May 1, after a two-day Federal Open Market Committee (FOMC) meeting, where it unanimously voted to leave the key benchmark interest rates unchanged at 5.25 per cent - 5.50 per cent for the sixth straight meeting, which was broadly in line with Wall Street estimates and market analysts. The US central bank has maintained its key overnight interest rate at the 23-year high mark since July 2023, and has now indicated of holding rates high until inflation cools and moves consistently to the target range.

For the first time, gross goods and services tax (GST) collection (prior to refunds) crossed the Rs 2 trillion mark, reaching a record Rs 2.1 trillion in April. This represented year-on-year (Y-o-Y) growth of 12.4 per cent. Net GST receipts (after refunds) rose 15.5 per cent Y-o-Y to Rs 1.92 trillion in April, the finance ministry said in a statement. Comparable data of net GST mopup is available for only two more months — February and March — both of which showed much lower revenues than in April.

India's industrial output eased to 4.9% in March compared with 5.6% in the previous month, as mining growth subdued the index despite robust expansion in electricity and higher growth in manufacturing.

After recording double-digit growth for two consecutive years, India's services exports decelerated in FY24 to a three-year low, with a modest increase of 4.9 per cent to $341.1 billion, data released by the Reserve Bank of India showed. However, net services exports grew at a robust pace of 13.6 per cent to $162.8 billion as services imports contracted 2 per cent to $178.3 billion during the financial year ended March 31.

The headline Purchasing Managers' Index (PMI), released by HSBC, slipped to 58.8 in April from a 16-year high of 59.1 recorded in March. A figure above 50 in the index denotes expansion and that below signifies contraction. Indian manufacturers reported robust demand from Indian and foreign clients in April when total new orders rose sharply. The pace of expansion was the second strongest since 2021.

The survey noted that in addition to buoyant domestic demand, firms saw new business gains from several parts of the world, which collectively underpinned the second-quickest upturn in international sales since the series started in September 2014. "Survey members attributed the latest upturn in output to favourable economic conditions, demand strength and rising intakes of new work," the survey noted.

Rating firm S&P Global Ratings revised outlook for the Indian economy to 'positive' from 'stable' and has affirmed the overall rating at 'BBB-' citing robust growth and improved quality of government expenditure. 'BBB-' is the lowest investment grade rating offered. The last time the agency upgraded the rating outlook was in 2010 when it shifted from negative to stable. "India's robust economy growth positive impacts credit metrics," S&P said.

Moody's Ratings stated that the Indian economy is projected to expand by 6.6 per cent in the current fiscal year (FY25). The agency highlighted that strong credit demand, fueled by robust economic growth, will bolster the profitability of the Non-Banking Financial Company (NBFC) sector. "We expect India's economy to expand 6.6 per cent in the year ended March 2025 (FY25) and 6.2 per cent the following year, and this will lead to robust loan growth at NBFCs, mitigating the impact of rising funding costs on their profitability," PTI quoted Moody's Ratings as saying.

REFORMS

Capital markets regulator Securities and Exchange Board of India (Sebi) altered the rules to ease the digital onboarding process for clients of portfolio managers. Sebi had constituted various working groups to recommend measures to simplify and ease compliances. As part of these efforts, a working group was made to review the present regulatory framework under Sebi (portfolio managers) regulations, 2020 and recommend measures to promote ease of doing business for portfolio managers.

A portfolio manager will, before taking up an assignment of management of funds and portfolio, enter into a written agreement with the client that clearly defines the relationship and sets out their mutual rights. While onboarding a client, a portfolio manager will ensure that the client has understood the fee structure and charges and add a note that they have understood the fee details. The portfolio manager will provide a fee calculation tool to all clients that highlights various fee options with multi-year fee calculations. The fee calculation tool will incorporate the high-watermark principle wherever applicable. The link to access the said tool will be provided in advance to all new clients onboarded on or after October 1, 2024.

SEBI has modified the basis for the computation of market capitalisation of listed companies under its LODR regulations. As against an earlier practice of determining the applicability of provisions linked to market capitalisation on a single day's market cap (currently calculated on March 31), SEBI has now introduced a concept of 'average market capitalisation' for a defined period.

SEBI board approved a proposal to increase participation from non-resident Indians (NRIs) and Overseas Citizens of India (OCIs) through the foreign portfolio investor (FPI) route in local markets. The board also cleared a proposal to simplify norms for passive schemes of domestic mutual funds allowing exposure to securities of group companies of the sponsor. "Sebi's decision to permit up to 100% NRI and OCI participation, from the current less than 50% permissibility exclusively for IFSCA regulated FPIs, will augur well for onshoring of India-focused offshore public market funds in IFSCs," said Tejesh Chitlangi, joint managing partner, IC Universal Legal. Also, funds set up in IFSC, desirous of having upto 100% contribution in their corpus from NRIs and OCIs will have to ensure diversification of investor base and investments.

In a bid to ease compliance towards companies planning public offers (IPOs), the SEBI has notified norms that open more avenues to meet the minimum promoters' contribution (MPC). The market regulator has permitted promoter group entities and non-individual shareholders to contribute to the mandated promoters' contribution in the case of a shortfall without being identified as a promoter. Equity shares from the conversion of compulsorily convertible securities held by foreign ventures, alternative investment funds for a year before filing the documents for IPO can also be considered towards the MPC. The market regulator has also allowed companies to extend the IPO period by just one day instead of the compulsory three days till now if there were any unforeseen instances like a banking strike. Sebi has also provided more flexibility to alter the issue size after the submission of an offer document.

SEBI issued a new set of guidelines for reducing the impact of market rumours on stock prices. In a circular released after market hours, SEBI said that it was introducing a concept of 'unaffected price' to mitigate the artificial stock price fluctuations. SEBI explained that the listed entity is required to verify the market rumours upon material price movement. The stock exchanges will issue the framework for material price movement on their respective websites. According to the SEBI circular, the verification of market rumours will apply to the top 100 listed entities from June 1, 2024, and to the top 250 listed entities (i.e., the next top 150) from December 1, 2024.

SEBI released a standard operating procedure (SOP) asking stock exchanges with commodities derivatives segments to inform about trading disruptions within 15 minutes of the event and to extend trading time by 30 minutes under specific outage conditions. “The intimation shall, inter-alia, inform that trading shall commence from 11:25 pm for a duration of 30 minutes, i.e., extended trading hours would be till 11:55 pm. If intimation is not sent to market participants by 11:10 pm, then there shall be no extension of trading hours,” Sebi said.

SEBI restricted the sharing of real-time market data around stock prices to third-party entities in a bid to clamp down on fantasy games and virtual trading platforms. The market regulator has directed stock exchanges, clearing members, depositories, and stockbrokers to not share real-time price data for third parties. It has also directed market intermediaries to formalise agreements around data sharing and specify the reasons for seeking real-time data.

To restrict the impact of finfluencers in the IPO market, Sebi ordered all IPO-bound companies to make videos informing investors to not rely on finfluencers or financial influencers dishing out half-baked ideas on social media platforms. Sebi has issued a circular asking all companies coming out with their IPOs to have audio-visual disclosure saying: “Investors are advised not to rely on any other document, content or information provided in respect to the public issue on the internet/online websites/social media platforms/micro-blogging platforms by finfluencers.” The order comes into effect from on or after July 1 on a voluntary basis and will be mandatory from October.

Exploring the Unlisted Space

While we have heard many stories of listed shares becoming multi-baggers over the past few decades, recently we have been hearing a lot about unlisted shares delivering multi-bagger returns. Some of them get listed and continue to generate returns for their investors whereas some fail to deliver returns after getting listed on the stock exchanges.

First of all, let us understand the difference between listed and unlisted shares. Companies can be broadly classified as either private limited or public limited, based on their ownership structure and whether their shares are traded on a stock exchange. Initially, companies start their journey as private limited companies and seek investments from shareholders to grow the underlying business. As they attain a certain threshold of shareholders, they transition into public limited companies. This allows them to continue growing, leading them to eventually list on a stock exchange through an IPO (Initial Public Offering).

There are several advantages of investing in unlisted shares. Unlisted shares are less liquid and less actively traded, which means that their price may not fully reflect their underlying value. This can create opportunities for value investing and long-term capital growth. They can offer investors the chance to get involved in early-stage companies that have the potential to grow rapidly.

Now, let us find out how to invest in them. A pre-IPO company is currently unlisted but intends to get listed in the future. You can invest in pre-IPO companies, as the shares come directly into your Demat account even though the trade happens off-record, and there's no involvement of the exchange. Alternatively, you can also put your money into unlisted start-ups that have the potential for multi-fold growth in the future.

In most start-ups, the minimum investment amount is around Rs 50,000 to get the stocks transferred into your Demat account. Some brokers help you connect with employees of organizations who sell their shares at a set price after a predetermined period. This is one way of buying shares for top unlisted companies in India. In addition, they can also help you to connect with the company's promoters directly and introduce you to a list of unlisted companies in India. Such transactions are called private placements. You can also Invest in PMS and AIF schemes that pick up unlisted shares.

Just like there are indices for listed shares, there is an index for unlisted shares named as Primex 40 Index. It is an index which tracks the performance of 40 top unlisted companies. Companies are selected based on their trading history in the unlisted market, availability of shares in the market, sector dominance and the number of public shareholders. Companies that get listed on a stock exchange are removed from this index. In order to curb the concentration risk of shares in this index, there is a weight cap of 10% in a single stock in the index. Rebalancing is conducted every three months and is also caused by certain corporate actions such as mergers and acquisitions that impact the market capitalization or free float (value of stocks held by the non-promoters).

However, there are following challenges while investing in unlisted shares-

1. Under researched scrips- Unlisted shares are not covered by brokerages and equity research firms.

2. Lack of transparency- Listed companies are required to inform stock exchanges about any development that can have an impact on the share price such as acquisitions, change of key personnel etc. They are also required to announce quarterly results. There are no such mandatory requirements for unlisted companies.

3. Higher risk of wealth erosion- First, there is the risk that the company may not be successful and its shares have the potential loss of capital. Second, there is the risk that the company may be unable to raise the necessary capital to grow, which could also lead to the shares losing value.

4. Low on Liquidity- More than half of the unlisted shares aren't traded regularly. This means that it is very difficult for the investors to enter or exit at their targeted prices.

5. Cost- Since there is little transparency about prices of unlisted shares, most brokers sell unlisted shares after adding their margin to the share prices.

6. Taxation- Realized gains on unlisted shares are considered as short term if holding period is less than two years. It is added to the investor's taxable income and taxed as per their tax slab while long term gains are taxed at 20% after indexation. Thus, listed equity shares are more advantageous considering the taxation angle.

Monthly Mantra

If you are worried about the cost of getting started, consider the price of staying static at where you are.

Cartoon of the Month

Good News!

1. India and Vietnam are emerging as key beneficiaries of the China plus one strategy, with Nomura predicting significant growth opportunities for Asian economies. According to a report by Nomura, India's exports are projected to skyrocket to $835 billion by 2030 from $431 billion in 2023, driven by its vast domestic market attracting companies seeking supply chain diversification away from China.

2. FMCG industry has begun witnessing green shoots in rural demand recovery. In an earnings call, Mohit Malhotra, CEO, Dabur India, "Rural growth is coming back. As per syndicated industry data, after almost three years, we are seeing rural growth ahead of urban growth. Going forward, normal monsoons, improving macros, continued government spending and lower inflation, should augur well for the FMCG industry." For Dabur, March quarter was the second quarter, when rural demand grew ahead of urban. "We are seeing gradual recovery. We are hopeful of a better monsoon and monsoon does have an impact on the agri economy and therefore rural consumption. Most likely, the worst is past us and from here onwards we see a gradual recovery in rural consumption," Rohit Jawa, CEO and MD, Hindustan Unilever said in an earnings call.

3. The government recovered Rs 852 crore under the amnesty scheme for exporters for one-time settlement of default in export obligation. The scheme, part of the new foreign trade policy, aims to settle default in export obligation by holders of advance and EPCG authorisations. Small exporters in Ludhiana have urged an extension of the scheme.

4. The government has so far achieved savings of more than Rs 25,500 crore through the treasury savings account (TSA) and the single nodal agency (SNA) bank accounts, Finance Minister Nirmala Sitharaman said. In a series of tweets on social media platform X, Sitharaman listed out the improvements brought in the finance ministry's Budget exercise and expenditure management over the past 10 years. The TSA, introduced in FY18 for just-in-time release of funds to autonomous bodies, has resulted in savings of more than Rs 15,000 crores to date. The TSA has brought down the unutilised parked funds.

5. The Global Biofuel Alliance (GBA) has adopted a work plan focused on assessing country landscapes, drafting policy frameworks, and conducting biofuel workshops, petroleum and natural gas ministry officials said. These were adopted as immediate goals at a key meeting of the body held on the sidelines of the G20 deliberations in Brazil last month. "India has also suggested three potential workstreams to support biofuel trade, increase awareness in biofuels, and identify support mechanisms for enhanced adoption of biofuels," an official said. The India-led initiative has seen 24 countries signing up so far, with special interest generated among African nations. Apart from G20 member South Africa, non-G20 nations like Kenya and Uganda are on the list, while Tanzania is keen on joining, sources said.

Top Personal Finance News – May 2024

1. Wall Street moves to fastest settlement of trades with T+1 system | Stock Market Today - Business Standard (business-standard.com) Click here
2. Demat account additions flat at 31 lakh in April. Overall tally rises to 15.40 crore - The Economic Times (indiatimes.com) Click here
3. NBFCs raise fixed deposit rates: Go for longer tenures in FDs with higher credit ratings - Money News | The Financial Express Click here
4. New tool against online fraud: Alerts for UPI, card, and net banking | Finance News - Business Standard (business-standard.com) Click here
5. Bank accountable for clearing forged cheque | Expert Views - Business Standard (business-standard.com) Click here
6. Household savings decline due to rising home, auto, personal loans - The Economic Times (indiatimes.com) Click here
7. Bank deposit rates rise, but yet to fully reflect repo hike - The Economic Times (indiatimes.com) Click here
8. NRI customers of this private sector bank can now make UPI payments using international mobile numbers - Here's how! - Money News | The Financial Express Click here
9. Tax on fringe benefits: SC holds bank employees' interest-free loans taxable as fringe benefits - The Economic Times (indiatimes.com) Click here
10. Nearly 6 lakh IT returns filed within one month of portal’s opening on April 1 - The Hindu BusinessLine Click here