I-CAN COMMUNIQUÉ

I-CAN FINANCIAL SOLUTIONS

SEPTEMBER 2019

MONTHLY NEWSLETTER – SEPTEMBER 2019

Sensex : Down 0.4% Nifty : Down 0.9%	
Best performing sector: Consumer Durables (4.8%)	Worst performing sector: Metals (-11.9%)
Best performing Global index: Swiss Market (-0.2%)	Worst performing Global index: MerVal (-41.5%)
Indian Rupee: -3.6%	Gold (International): 6.5%

The Indian equity market sentiment continued to be subdued. The headline indices remained almost flat. The S&P BSE Mid and Small cap indices fell by 1.3% and 1.2% respectively. Foreign institutional investors (FIIs) sold a net amount of Rs 17,592 crore from Indian stock markets. However, FIIs remained net buyers in the debt markets and pumped in a net amount of Rs. 11,672 crore. The benchmark 10-year government bond yield increased by 19 basis points to 6.56% by end-August.

The reasons contributing to the poor investor sentiment are an economic slowdown across sectors, poor GDP growth, weak consumer demand, selling by FIIs, NBFC crisis, poor transmission of rate cuts by banks and so on. India's GDP grew at 5% in the April-June 2019 quarter – the slowest pace in six years. India Ratings revised the GDP forecast for FY 2019-20 to 6.7% from 7.3%. The International Monetary Fund (IMF) also raised a question mark on the government's estimate of revenue and GDP growth estimate. India's industrial output measured by index of industrial production (IIP) grew by 2.1% in July compared to 0.7% in June. The India Manufacturing Purchasing Managers' Index (PMI) fell to 51.4 in August from 52.5 in July, its lowest level since May 2018. The Services PMI also fell – from 53.8 in July to 52.4 in August. A PMI reading above 50 indicates expansion.

The government announced a set of measures aimed at helping in reviving the economic and capital market sentiment. Two more announcements are expected in the near future.

- Rollback of the surcharge on domestic and foreign portfolio investors
- Aadhaar-based KYC for opening demat accounts and investment in mutual funds
- CSR violation to be treated as a civil offence, not a criminal offence
- BS-IV cars purchased till March 2020 to remain operational for the entire period of registration.
- Higher vehicle registration fee postponed to June next year.
- Depreciation increased to 30% for all vehicles purchased till March 2020
- Liquidity enhancement for banks to encourage consumer spending
- Easy GST refunds to micro, small and medium enterprises
- Angel tax provision withdrawn for startups and their investors
- Banks to launch repo rate linked loans to make loans cheaper
- Additional liquidity to support Housing Finance Companies by National Housing Board increased to Rs 30,000 crore

The government took a colossal step of scrapping Article 370 which gave a special status to Jammu & Kashmir. The state has been divided into two union territories.

In its 35 sittings this session, the two Houses of Parliament have passed a staggering 26 Bills, thus making it one of the most productive parliament sessions ever.

The retail inflation rate based on consumer price index (CPI) dropped in July to 3.15% from 3.18% in the previous month. This is the 12th consecutive month that the reading was less than the targeted inflation rate of 4%. The wholesale inflation based on wholesale price index (WPI) hit a 25-month low of 1.08%. This was a sharp drop from 2.02% in June. The Reserve Bank of India slashed the repo rate by 35 basis points (bps). This was the fourth rate cut this year. It was an unexpected number because generally the central bank changes rates in multiples of 25 bps. The repo rate now stands at 5.4%.

The fiscal deficit number touched Rs. 5.47 trillion, or 77.8% of the budget estimate for 2019-20. In a great relief, RBI approved a transfer of Rs 1.76 lakh crore of dividend and surplus reserves to the government- which will give the government ammunition to provide stimulus to revive the slowing down economy.

Reforms

- The government has made changes to the FDI Policy:
    - Easing of Single brand retail sourcing norms
    - 100% FDI allowed in contract manufacturing
    - 100% FDI in coal mining through automatic route
    - 26% FDI limit now applicable to digital media
- SEBI has allowed mutual funds to restructure their exposure to stressed exposures to corporates. The condition is that mutual funds will need to segregate the portfolio in case of a credit event for signing the inter-creditor agreement (ICA).
- Those who have withdrawn Rs 1 crore or more in cash from banks/post offices will be charged a 2% TDS on further cash withdrawals from 1 September'19.
- The last date for filing annual GST returns has been extended by three months to November 30 to help taxpayers facing technical problems get sufficient time to submit the returns.
- SEBI relaxed the regulatory and compliance framework for foreign portfolio investors (FPIs) by broad-basing their classification. The process of registration, KYC and entry has also been simplified.
- SEBI eased the buyback norms for listed companies which own NBFC and housing finance subsidiaries.
- RBI announced that from 26 August, transfer of funds through the RTGS system will be available from 7 am instead of 8 am.
- In order to make India more attractive as a tourist destination, the government has plans to introduce one-month e-visa with flexible charges – with fees for the off-season summer months to be kept less than the rest of the year.

Alternative Investment Funds (AIFs)

Alternative Investment Funds (AIFs) are privately pooled investment vehicles in which sophisticated investors park their money. AIFs in India are regulated by SEBI. AIFs in India can be established in the form of a company or a corporate body or LLP or a trust. The minimum investment requirement by each investor prescribed by SEBI is Rs 1 crore. This product is suitable for high net worth individuals who can understand the features, risks and complexity of this investment avenue.

AIFs got capital commitments worth Rs 1.17 trillion (around $17 billion) in 2018-19.

Types of AIFs in India:

A. Category I: Invest in startups, early stage companies, small and medium enterprises (SMEs) and projects which are socially and economically viable. It includes Venture Capital Funds, Infrastructure Funds, Angel Funds and Social Venture Funds
    a. Venture Capital Funds: These funds invest in startups which have potential to generate very high returns but are currently facing an investment crunch in the initial phase. Since it is difficult for early stage companies to raise money from the capital markets this is a popular way for them to meet their financing needs. Venture capital funds pool money from investors and invest in different startups. The gains are realized by the individual investors in proportion of their investments.
    b. Infrastructure Funds: These funds invest in the development of public assets like railways, roads, airports, communication assets etc. The gains to investors come in the form of capital appreciation as well as dividends. It is likely that government provides tax incentives in social projects.
    c. Social Venture Funds: These funds invest in companies which are socially and environmentally friendly and at the same time generate profits for investors.
    d. Angel Funds: This is a kind of venture capital fund which pools in money from various 'angel' investors to invest in very early stages of a startup. Units are issued to angel investors.

B. Category II: Invest in equity and debt funds and do not take any leverage or borrowing. It includes Private Equity Funds, Debt Funds and Fund of Funds

a. Private Equity Funds: The investment is made in unlisted equities. This is typically done with an investment horizon of 4-7 years
b. Debt Funds: The main objective is to invest in debt instruments of listed and unlisted entities. The amount invested cannot be used for the purpose of granting loans.
c. Fund of Funds: A Fund of Funds is a portfolio of various AIFs.

C. Category III: Invest in complex trading strategies to achieve short-term returns. It includes Hedge Funds and Private Investment in Public Equity (PIPE) funds.
    a. Hedge Funds: The aim is to generate high absolute returns for investors through investment strategies. They can take a high amount of leverage and the style of management is aggressive.
    b. PIPE: The money is pooled privately for investment in public entities.

AIFs can invest in companies outside India subject to the laws applicable on such investments. Category I and II AIFs cannot invest more than 25% of their investable corpus in one investee company. Category III AIF cannot invest more than 10% of their funds in one investee company.

Advantages of AIFs:

- AIFs provide an opportunity for HNIs to diversify their investments
- Potential for high returns
- Even in bearish stock markets Category III AIFs can deploy long-short strategies to generate positive real returns compared to long only strategies

However, one has to be mindful of the higher risk associated with some investment strategies of AIFs. The fund manager risk can also be very high in some cases. Unlike mutual funds the NAVs and portfolios are not disclosed frequently. Hence it is better to get guidance from an investment advisor before choosing an AIF.

Did you know?

66% of Millennials in the U.S. have no money saved for retirement.

Cartoon of the Month

"Make education a lifelong quest. Never stop learning. That is the best way to defer your student loan payments!"

Top Personal Finance News – August 2019

1) Why you should not stop your mutual fund SIP: Click here
2) Buying insurance cover online? Check these parameters to avoid fraud: Click here
3) From PPF to mutual funds, 7 investment options for salaried: Click here
4) Here are four tips that may help in long-term investments: Click here
5) Now you can verify your ITR without login to your e-filing account: Click here
6) Take the lump sum route in ELSS if you need your money in three years: Click here
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