I-CAN COMMUNIQUÉ

Celebrating 12 years of Creating Wealth

MAY 2024

MONTHLY NEWSLETTER – MAY 2024

Sensex : Up 1.1 % Nifty : Up 1.2 %	
Best performing sector: SME IPO (31.5 %)	Worst performing sector: IT (-4.9 %)
Best performing Global index: Merval (Argentina) (9.1 %)	Worst performing Global index: Nasdaq Transportation (-12.4 %)
Indian Rupee: - 0.17 %	Gold (International): + 3.3 %

MACRO ECONOMIC HIGHLIGHTS

India's retail inflation rate eased to a 10-month low in March but remained well above the Reserve Bank of India's (RBI's) 4 per cent target, while industrial production accelerated to a four-month high in February, paving the way for the central bank to stay focused on ensuring price stability.

Data released by the National Statistical Office showed that the consumer price index (CPI)-based inflation rate softened to 4.85 per cent in March from 5.09 per cent in February. This fall was led by fuel and light group (-3.24 per cent), reflecting a decline in cooking gas prices. Food and beverages inflation remained elevated, easing only marginally to 7.7 per cent in March from 7.8 per cent in February. However, core inflation, which excludes volatile food and fuel items, continued to decelerate in March to 3.25 per cent. Though retail inflation in the March quarter was the lowest in 12 quarters, rural (5.45 per cent) and urban (4.14 per cent) divide in inflation widened to a 23-month high of 1.31 percentage points in March.

On the other hand, growth in the index of industrial production (IIP) expanded to 5.7 per cent in February. It was boosted by output growth in mining (8 per cent) and electricity (7.5 per cent) while manufacturing output (5 per cent) remained the laggard.

Despite global economic uncertainties, India's services exports surged by 11.4% to $345 billion in 2023, outpacing China, whose shipments from the sector shrank by 10.1% to $381 billion, as per a UNCTAD report. Key sectors driving India's growth include travel, transport, medical, and hospitality services. The world's services exports, exceeding $7.9 trillion in 2023 with an 8.9% annual increase in current dollar value terms, were led by developing economies like India, China, Singapore, Turkiye.

The financial 2023-24 (FY24) ended on a positive note for the Indian economy with goods and services tax (GST) collection, car sales, and Unified Payments Interface (UPI) transactions hitting high spots. GST receipts net of refunds grew 18.4 per cent at Rs 1.65 trillion in March. It had risen 13.6 per cent year-on-year to Rs 1.51 trillion in February. With the March numbers, net collection stood at Rs 18.01 trillion in FY24, an increase of 13.4 per cent over that in the previous year. Gross GST collection (before refunds) grew 11.5 per cent to hit the second-highest figure at Rs 1.78 trillion in March FY24 despite being pulled down moderately by weaker integrated GST (IGST) on imports of goods.

This came with Indian carmakers reaching a new high in FY24 with sales of 4.23 million domestic passenger vehicles, marking an 8.74 per cent year-on-year (Y-o-Y) increase.

Also, UPI transactions in India posted a record 57 per cent rise in volumes and 44 per cent in value in FY24 over the previous financial year.

Big boost from personal income tax helped the government receive over ₹19.58 lakh crore through direct taxes in fiscal year 2023-24. With this, collections exceeded both budget estimates (BE) and revised estimates (RE). According to a Finance Ministry statement, net collection of direct taxes (gross collection minus refund) rose to ₹19.58 lakh crore in FY24 which is 17.7 per cent higher than ₹16.64 lakh crore of FY23. Although the statement has not mentioned any reasons for rise, officials say that the rise in overall income level along with better compliance and ease of tax-paying enabled the government to get higher revenue.

The RBI released the minutes of the Monetary Policy Committee (MPC) meeting on April 19, highlighting that the policy must continue to be actively disinflationary to ensure anchoring of inflation target and fuller transmission. The RBI at its last bi-monthly MPC meeting on April 5 decided to keep the benchmark interest rate (repo rate) unchanged at 6.5 per cent citing inflationary concerns. The RBI retained the GDP growth forecast of 7 per cent for the 2024-25 financial year, lower than the 7.6 per cent expansion estimated for FY24.

Global rating agency Moody's maintained a stable 'outlook' and affirmed long-term and short-term ratings at 'Baa3' and 'P-3' respectively for India. It has estimated growth rate of 8 per cent for Fiscal Year 2023-24 and 6 per cent plus for current and next fiscal (2024-25 and 2025-26) years.

India's economy is projected to grow by 6.5 per cent in 2024, according to a report by the UN which noted that multinationals extending their manufacturing processes into the country to diversify their supply chains will have a positive impact on Indian exports. The expansion in 2023 was driven by strong public investment outlays as well as the vitality of the services sector which benefited from robust local demand for consumer services and firm external demand for the country's business services exports, the report said, adding that these factors are expected to continue to support growth in India in 2024.

Morgan Stanley is optimistic about India's economic growth due to strong domestic demand. The firm forecasts GDP growth of 6.8% in 2024-25 and 6.5% in 2025-26. It predicts inflation to be around 5% in the second quarter, easing to 4.1% in the second half of 2024.

REFORMS

To facilitate ease of doing business, the Securities and Exchange Board of India (SEBI) said certain changes in the private placement memorandum of alternative investment funds can be submitted directly to the regulator rather than through a merchant banker. The move would also rationalise the cost of compliance for alternative investment funds (AIFs). The new framework would come into force with immediate effect, the SEBI said in a circular.

The World Bank, along with the Ministry of Electronics & Information Technology (Meity), is working on developing a state-level Digital Public Infrastructure (DPI) adoption index that will help boost the digital economy and support financial inclusion. The state-level DPI index will help analyse gaps to strengthen the digital economy, support financial inclusion, and increase public-private innovation," it said. The bank has invited applications from consulting firms to participate in the initiative.

The Reserve Bank of India's (RBI) draft regulation for payment aggregators (PAs) will enable the latter to manage risks on their platform with well-defined Know Your Customer (KYC) norms for merchants, said market participants. In the draft guidelines published, the banking regulator outlined KYC procedures for small and medium-sized merchants. It said, a PA will need to undertake Contact Point Verification (CPV) and duly verify the bank account in which the funds of small merchants are settled. Physical merchants that are undertaking only proximity or face-to-face transactions with business turnover less than the threshold limit of Rs 5 lakh per annum and those not registered under Goods and Services Tax (GST) are defined as 'small merchants' as per the draft norms. It has defined medium merchants as those with business turnover less than the threshold limit of Rs 40 lakh per annum and those not registered under GST.

It appears that a new category of licenses is soon to be added in the world of financial services. To tighten the offline payments ecosystem, the RBI is expected to come out with guidelines for issuing licenses to operate in the point of sales (POS) business. Third-party POS operators would have to obtain licenses to function in the space. The move is expected to impact players such as Pine Labs, MSwipe, Paytm and BharatPe to name a few. According to highly placed sources, the objective of introducing a licensing framework is to ensure harmony in operations and establish level playing field between online and offline payment operators. “Regulated entities such as banks and NBFCs who are already in the POS business won’t be impacted. However, third-party operators will have to obtain a license to continue business,” said the source.

It is understood that that in recent years, banks have opted to operate through third-party POS players rather than doing it in-house due to ease of doing business. Similar to payment aggregator licenses, POS operators may have to comply with certain norms such as minimum net worth of ₹25 crore and passing the fit and proper conditions of RBI.

The RBI has proposed permitting linking of Prepaid Payment Instruments (PPIs) through third-party UPI applications, thus allowing PPI wallet holders more flexibility to make UPI payments. At present, UPI payments from bank accounts can be made only by linking a bank account through the UPI application of the bank or using any third-party UPI application. However, the same facility is not available for PPIs, and wallet holders can make UPI transactions only by using the web or mobile application provided by the PPI issuer.

How to track quarterly corporate results?

As we are nearing the end of an earnings season, let us find out how to track the quarterly results of our portfolio stocks or the stocks in our watchlist. While financial statements are published at the end of a financial year, the quarterly results are declared after the end of every quarter starting from April every year. As per the Listing Obligation Disclosure Requirements by SEBI, a listed company must declare their quarterly results within 45 days after the end of a quarter.

In order to analyze the results, let us first see where to find the results. One can access the "investor relations" tab on the company website of the respective company. One can also find them on various other websites including that of BSE.

Following are the Components of a Quarterly Result-

1. Press Release/ Operational Highlights
2. Investor Presentation
3. Shareholding Pattern
4. Earnings Call Transcript
5. Management Commentary

Generally, Operational Highlights include metrics such as revenue, profit, operating income, etc. while Investor Presentation contains much more detailed information with several pictorial presentations through charts and graphs. One can check the performance of a company during a quarter against its performance in the same quarter last year as well as how it fared sequentially which is indicated by YoY and QoQ figures respectively.

While promoters reducing their stake is generally taken as a negative sign, investors need to analyze the reason for liquidation. It might happen that they needed to liquidate for some personal reasons. Also, institutional investors like FIIs, DIIs and Mutual funds increasing their stake is seen as a positive sign since they are believed to be the most diligent investors who invest after doing a thorough background check on the company.

There is an earnings call which the top management of a company i.e. the MD and CEO along with some other functional heads conduct after declaring the quarterly results. They generally give a presentation on the sectoral trends, how the external factors on domestic and global level affected the company's performance and how the company performed across various parameters. Analysts and shareholders are allowed to ask questions to the management after this presentation. This con call can be very insightful since analysts across mutual funds and brokerages who regularly track the scrips call out on the management's execution against the guidance they would have earlier provided and hold them accountable for their commentary.

Apart from basic metrics like revenue, EBITDA and Net profit, there are certain indicators that are unique to every sector. They are quintessential while analyzing the performance of the companies belonging to those sectors. Here are some sector wise examples of indicators which are considered as good.

1. **Banking-** Reduction in non-performing assets, increase in net interest margin and number of new branches opened
2. **Insurance**- Reduction in combined ratio, increase in claim settlement ratio, retention rate and gross written premium
3. **FMCG**- Entry in new categories to leverage distribution network, launch of new products (preferably higher in margin), expansion of distribution reach, higher volume growth and premiumization
4. **Chemicals**- Capex, if there is an undercapacity in the sector, if there are visible benefits from tailwinds such as China plus one, higher price realizations and volume growth. Also please note that the segment of chemicals under consideration is important since amines, bulk, speciality and agro chemicals need to be analyze separately.
5. **Hospitals**- Expansion in hospital network, increase in no of beds, bed occupancy rate and average revenue per occupied bed and reduction in average length of stay

Now that we have understood how to analyze the quarterly results, let us quickly understand how to make investment decisions based on it. First of all, a bad quarter is very common for any company or sector and one should not exit stocks due to a poor performance in a quarter or two. However, one might take an exit call on a stock for reasons such as-

1. Signs that the underperformance in the sector might persist for several quarters to come
2. Signs that a company might continue to perform poorly due to company specific reasons
3. Poor management execution and severe delay in meeting various deadlines
4. There is a better investment opportunity

Thus, this should help us analyze the quarterly corporate results and actively manage our stock portfolios.

Monthly Mantra

You don't buy things in life with money. You buy things in life with the time that it takes you to make that money.

Cartoon of the Month

"If you follow my rules, you will never lose money. Rule #1: Never lose money."

Good News!

1. The International Monetary Fund has applauded India for maintaining fiscal discipline in an election year, saying that the Indian economy is doing well and continues to be the world's bright spot. "At this point in time, India's economy is doing well. Growth at 6.8 per cent is very good. Inflation's coming down. We have to make sure that inflation comes down to target and it is there on a durable basis. Macro fundamentals look pretty good," Krishna Srinivasan, Director, Asia and Pacific Department, at the IMF told in an interview.

2. There are incipient signs that venture capital and private equity funding into startups, which has been on the ebb over the last 15-18 months, is seeing distinct signs of revival. Many of the larger funds that had stayed away from India are returning in a big way. In the first quarter of 2024, VC investments in Indian startups crossed $2 billion from 183 deals, data from Venture Intelligence showed. This is double the investments seen in the December quarter. In fact 2023 was the worst year for the sector with startups churning a little over $7 billion compared to $25 billion in 2022. While funding is still slightly lower than a year ago, analysts said that the quality of financiers and ticket size are increasing.

3. India's defence exports have scaled "unprecedented heights", crossing over ₹21,000 crore for the first time in the history of independent India, Defence Minister Rajnath Singh said. He said defence exports have reached ₹21,083 crore in financial year 2023-24, which is a "spectacular growth of 32.5 per cent over the previous fiscal." Comparative data shared by the Ministry of Defence (MoD) of two decades from 2004-05 to 2013-14 and 2014-15 to 2023-24 revealed that there has been a growth of 21 times in the defence exports. The Ministry believes that this "remarkable growth has been achieved due to the policy reforms and 'Ease of Doing Business' initiatives brought in by the Government, in addition to the end-to-end digital solution provided to the Indian industries for promoting defence exports".

4. In what could come as a relief to the government's fight against inflation, the India Meteorological Department (IMD) predicted an 'above-normal' monsoon in 2024, which quantitatively could be around 106 per cent of the long period average (LPA). This mirrors the consensus that most weather experts have on the Indian monsoon this year. The LPA for the June to September rains is 87 centimetres, and a forecast of 106 per cent of this means that the monsoon could be 'above normal'.

5. The defect rate in settlements of Indian equity markets have halved after the shift to the T+1 settlement cycle,SEBI chairperson Madhabi Puri Buch said. Buch added that prior to moving to the T+1 settlement cycle, the defect rate in the Indian equity market was 0.7%-0.8%, while after the implementation of T+1, it has halved to 0.3%-0.4%.

Top Personal Finance News – April 2024

1. New upgradable ATMs to be introduced soon; details here Click here
2. In a first, yearly transactions through UPI cross 100 billion in FY24 Click here
3. Demat accounts cross 15-crore mark for first time after 31 lakh additions in March Click here
4. EPFO to undergo revamp as user base gets bigger Click here
5. Penalty exemption: Non-linkage of PAN-Aadhaar: CBDT gives relief to tax deductors Click here
6. Centre plans to extend PMSBY claims deadline for informal workers Click here
7. Cheapest personal loan interest rates April 2024: List of banks offering lowest rates on personal loans Click here
8. Rs 2000 currency notes: 97.69% of Rs 2,000 currency notes returned: RB Click here
9. How increasing earning and wealth have made personal financial decisions truly 'personal' Click here
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