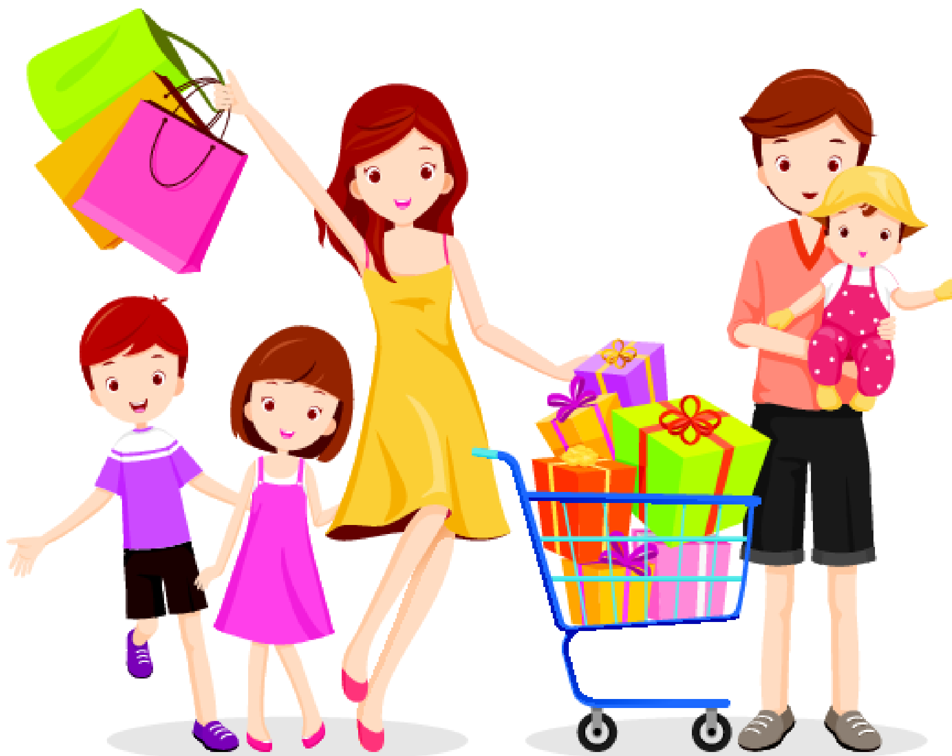
Celebrating 12 years of Creating Wealth

I-CAN COMMUNIQUÉ

APRIL 2024



MONTHLY NEWSLETTER – APRIL 2024

Sensex : Up 1.59% Nifty : Up 1.57%	
Best performing sector: Capital Goods (6.15 %)	Worst performing sector: Media (-12.4 %)
Best performing Global index: Merval (Argentina) (19.6 %)	Worst performing Global index: KLSE Composite (-0.99 %)
Indian Rupee: -0.54 %	Gold (International): +8.39 %

MACRO ECONOMIC HIGHLIGHTS

With retail inflation gaining momentum in February, the monetary policy must remain in a risk-minimising mode to guide the trajectory towards the 4 per cent target, stated the Reserve Bank of India's State of the Economy report. It also underscored an upward trend in per capita income, citing data from the Household Consumption Expenditure Survey. The report said real GDP, which expanded at a six-quarter high rate in October-December 2023, was powered by strong momentum, robust indirect taxes and lower subsidies. It was bullish on economic growth, which has been predicted closer to 8 per cent for the current financial year as compared to the National Statistical Office's (NSO's) estimate of 7.6 per cent (Second Advance Estimate).

The headline wholesale price index (WPI)-based inflation eased to 0.2 per cent in February from 0.27 per cent in the preceding month, remaining in positive territory for the fourth consecutive month. The data released by the Ministry of Commerce and Industry showed that lower WPI inflation in February was driven by a deceleration in price rises for fuel and manufactured products, even though food inflation accelerated to 6.95 per cent. On the whole, the WPI would end up with a deflation rate of 0.7 per cent in 2023-24. With the base effect turning low from April 2024 onwards, the WPI inflation is expected to pick up somewhat to around 0.5 per cent," says India Ratings & Research principal economist Sunil K Sinha.

High food prices kept the retail inflation rate above 5 per cent in February while growth in industrial production eased in January, led by deceleration in the growth of manufacturing output. The data released by the National Statistical Office showed the consumer price index-based (CPI-based) inflation rate eased slightly to 5.09 per cent in February from 5.10 per cent in January as moderation in the core inflation rate (excluding food and oil) to 3.3 per cent was nullified by a rise in the food inflation rate to 8.7 per cent from 8.3 per cent in preceding month. On the other hand, growth in the index of industrial production (IIP) eased to 3.8 per cent in January following an upwardly revised 4.2 per cent growth in the preceding month, as expansion in manufacturing sector eased to 3.2 per cent.

The US Federal Reserve announced its second interest rate decision for 2024 on 20th March 20, after a two-day Federal Open Market Committee (FOMC) meeting, where it unanimously voted to leave the benchmark interest rates unchanged at 5.25 per cent - 5.50 per cent for the fifth straight meeting. The US central bank has maintained its key overnight interest rate at the 23-year high mark since July, and also signaled three rate cuts in 2024, despite sticky inflation. Fed policymakers foresee fewer rate cuts in 2025, and also slightly raised the US core inflation and US GDP growth forecasts for 2024.

Japan's central bank raised its benchmark interest rate for the first time in 17 years, ending a longstanding policy of negative rates meant to boost the economy. It's the first rate hike since February 2007. The bank had set an inflation target of 2 per cent as an indicator that Japan had finally escaped deflationary tendencies. But it had remained cautious about normalizing monetary policy, or ending negative borrowing rates, even after data showed inflation at about that rate in recent months.

Better consumption, improved compliance and good collection in majority of States helped mop-up from GST to ₹1.68-lakh crore in February. This is 12.5 per cent higher than February of 2023. However, there is no indication about rate rationalisation in near term. According to a Finance Ministry statement, growth in February (on y-o-y basis) was driven by a 13.9 per cent rise in GST from domestic transactions and 8.5 per cent increase in GST from import of goods. “GST revenue net of refunds for February 2024 is ₹ 1.51-lakh crore, which is a growth of 13.6 per cent over that for the same period last year,” it said.

India’s core sector output, which measures production by eight key industries, grew by 3.6 per cent in January, a 15-month low, as per a government data update. A lower growth of 0.7 per cent was recorded in October 2022. The base effect combined with a single digit growth in five industries and a negative growth in two, slowed down production in the first month of this year. In January last year, the core sector had grown by 9.7 per cent. Core sector output in the 10-months of this financial year (FY24) grew by 7.7 per cent compared to 8.3 per cent for the same period in FY23.

India’s service sector activity continued to expand in February, but a tad lower than January when it had hit a six-month high figure. Slowdown in growth in new orders and output in the country’s dominant services sector pulled the headline Purchasing Managers’ Index (PMI) figure in February to 60.6 from a six month high of 61.8 in January, according to a survey released by S&P Global in partnership with HSBC. India’s service sector continued to grow during February as positive demand trends supported sales and business activity. Growth rates slowed since January, though remained historically substantial,” the survey noted. The February figure marks 31 months of the index remaining above the 50-mark since July 2021.

Global brokerage firm Morgan Stanley has revised its gross domestic product (GDP) growth forecast for the financial year 2024-25 (FY25) to 6.8 per cent, up from the previous estimate of 6.5 per cent. The firm also revised its growth forecast for the ongoing financial year (FY24) to 7.9 per cent. Morgan Stanley expects India's GDP growth to remain robust, with an anticipated growth rate of around seven per cent in the fourth quarter of FY24 (quarter ending in March 2024). This growth momentum is expected to be widespread, with converging gaps between rural-urban consumption and private-public capital expenditure in FY25.

Global rating agency Fitch Ratings raised India’s growth forecast for the next financial year (FY25) to 7 per cent from 6.5 per cent estimated earlier, citing robust domestic demand and sustained growth in business and consumer confidence. Domestic demand, especially investment, will be the main driver of growth amid sustained levels of business and consumer confidence. Our forecasts imply that growth in the short term will outpace the economy's estimated potential and that the pace of growth of activity will then moderate towards the trend in FY25, with real GDP rising by 6.5 per cent in [FY26]," the rating agency noted.

REFORMS

Capital markets regulator Securities and Exchange Board of India (SEBI) has approved the launch of the beta version of the T+0 settlement on an optional basis from March 28. On March 15, after a meeting with its Board, SEBI announced the new and optional settlement cycle. ''Taking into account stakeholder feedback, the Board approved the launch of a Beta version of optional T+0 settlement, for a limited set of 25 scrips, and with a limited set of brokers,'' said SEBI in its statement on March 15. ''In parallel, SEBI shall continue to do further stakeholder consultation, including with the users of the Beta version. The Board shall review the progress at the end of three months and six months from the date of this implementation, and decide on further course of action,'' it added.

In a move aimed at enhancing the ease of doing business for companies seeking initial public offerings (IPOs) or fundraising, the SEBI has approved significant amendments to its regulations, as per the official notification. As per the new changes, the requirement of a 1% security deposit in public/rights issues of equity shares has been done away with, streamlining the process for companies seeking to raise capital through IPOs. Further, promoter group entities and non-individual shareholders holding more than 5% of the post-offer equity share capital will now be permitted to contribute towards the minimum promoters' contribution (MPC) without being identified as promoters.

To give a push to e-commerce exports the government has decided that the Electronic Bank Realisation Certificate (EBRC) will be self-generated from now. Earlier EBRC issued by a bank as confirmation that the exporter has received payment from the importer against the export of goods. For issuing EBRC certificate banks charge a fee of around Rs 1500. EBRC is an essential document for claiming export benefits. "This (self generated EBRC) will help small exporters especially e-commerce exporters whose shipments are in small volumes and margins are small," Director General and Chief Executive Officer of Federation of Indian Export Organisations Ajay Sahai said.

The Reserve Bank of India issued revised norms to streamline the process of bill payments, enable greater participation, and enhance customer protection. The central bank has issued the revised 'Reserve Bank of India (Bharat Bill Payment System) Directions, 2024' as it felt there was a need to update the existing regulations in view of significant developments in the payments landscape. "These directions seek to streamline the process of bill payments, enable greater participation, and enhance customer protection among other changes," RBI said. These directions will be applicable from April 1, 2024 to banks, NPCI Bharat BillPay Limited and other non-bank payment system participants.

The RBI has given a breather to the lenders on their investments in alternative investment funds (AIFs) following representations received from stakeholders. In its latest circular, the RBI said lenders cannot make investments in any scheme of AIFs which has downstream investments, such as hybrid instruments in a debtor company of the former. However, lenders are allowed to make investments in any scheme of AIFs which has downstream equity investments in a debtor company of the former. The RBI also gave relief on provisioning norms. Provisioning will be required only to the extent of investment by the lender in the AIF scheme, which is further invested by the fund in the debtor company.

In a concerted attempt at self-regulation, a grouping of the country's peer-to-peer (P2P) lending platforms has asked its members — including Liquiloans, Lendbox and Faircent — to stop offering instant withdrawal products to customers after March 31, people aware of the move said. Following the industry-level decision, Matrix Partners-backed Liquiloans has written to its business partners informing them it would pause the liquid scheme option for all new lenders. The initiative by the Association of P2P Lending Platforms comes on the back of sharp displeasure expressed by the country's banking regulator over a spate of such products offering attractive interest rates and instant liquidation options to retail investors.

How does Inflation Impact Economy?

You would have often read in the news how inflation has kept interest rates around the globe high for the last couple of years. Let us understand what inflation actually is and how it impacts the economy. In simple words, Inflation is a rise in prices, which can be translated as the decline of purchasing power over time. It can be primarily caused due to economic boom leading to higher demand (demand pull), raw material price increase (cost push), increase in salaries when unemployment rate is very low (wage push) and printing of currency by Central bankers (currency depreciation).

In order to have a healthy economy, a country must have a certain level of economic growth. This is usually measured by the Gross Domestic Product (GDP), which is the total value of all goods and services produced in a country in a given year. Inflation can have both positive and negative effects on an economy. On one hand, it can lead to economic growth, wage hikes and encourage businesses to invest. On the other hand, it can be painful, especially to the poor and the middle class populations as it would become difficult for them to afford the goods and services, especially if their income levels do not rise proportionately.

Let us assess the impact of inflation on individuals and their personal finance. As one's expenses towards non- discretionary purchases such as food, utilities, rent etc increase due to inflation, they would consume a bigger share of their wallets, thus reducing their purchasing power for discretionary spends such as consumer durables, travel, entertainment etc. Also, their potential to save and invest might get affected adversely.

Now let us analyse how inflation would affect businesses. Moderate inflation is supposed to be good for businesses since it gives a scope to increase the prices and achieve a margin expansion. However, if there is a sharp spike in inflation which could adversely impact the consumer demand, the businesses would experience a volume degrowth. If there is cost push inflation due to a sharp spike in the prices of raw materials and utilities, it might be difficult to pass all of it to customers and businesses might have to face margin dilution to protect the demand.

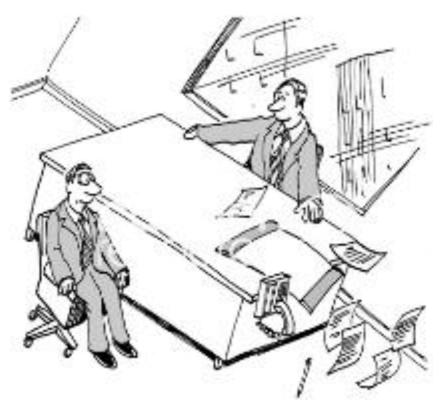
If inflation can have such a negative effect on individuals and businesses, then is it a curse? What would happen if there is no inflation in the economy? There would be no salary hikes. If there is deflation I.e prices of goods and services fall year on year, it would destroy demand as one would not be encouraged to buy something that could be available at a cheaper rate in the future. This would lead to businesses incurring losses. Thus, it would pose a massive threat to business expansion and employment creation and would instead lead to layoffs and rising unemployment.

You must be wondering what then could be an ideal scenario for inflation. It is believed that while inflation rate of 2% is ideal for developed economies, 4-6% is considered to be ideal for India. Though it would be difficult to achieve inflation within this ideal range, there are many measures that can be taken by the Central bankers and the governments to control inflation and reduce its divergence from the ideal range.

Monthly Mantra

Making money is action. Keeping money is behaviour. Growing money is knowledge.

Cartoon of the Month



“Hold on, the market is shifting again!”

Good News!

1. To enable farmers to access pledge finance against the harvested commodities, the government on Monday launched an online digital gateway e-Upaja Kisaan Nidhu which would allow storage of agricultural produce with the Warehousing Development and Regulatory Authority (WDRA) and obtain post-harvest loans from the banks. Food minister Piyush Goyal said that the online gateway developed jointly by the department of food and public distribution, department of financial services and Nabard with its simplified digital process can ease the procedure of farmers' storage at any WDRA registered warehouse for a period of six months at 7% interest per annum. Goyal said "with its no collateral, extra security deposit policy can prevent distress sale by farmers who often have to sell their entire harvest at cheaper rates due to poor post-harvest storage opportunities,".

2. The Union Cabinet approved proposals to set up three semi-conductor units with an investment of ₹1.26-lakh crore. Two of the units will be set up in Gujarat while third one will be in Assam. With this, India will have four units, with supply from first unit is expected by year end. While Tata group will set up two units – Dholera (Gujarat) and Morigaon (Assam), CG Power will set up unit at Sanand (Gujarat).

3. The Ministry of Heavy Industries (MHI) announced a new policy to boost electric vehicle (EV) manufacturing in the country by global players, such as Tesla, VinFast, BYD, Kia, Škoda, BMW, and Mercedes-Benz. The new policy entails lower import taxes on certain electric vehicles for companies committing to at least $500 million (Rs 4,150 crore) in investment and a manufacturing plant within three years. It proposes to reduce import duties for interested EV makers to 15 per cent from the current 70 per cent or 100 per cent on vehicles having a CIF (cost, insurance, and freight) value of $35,000 and above for a period of five years from the date of issuance of the approval letter by the government. This proposed duty structure aligns with the demands made by Elon Musk-promoted Tesla in its discussions with the Indian government.

4. Apple's production of iPhones in India crossed the $10-billion mark during the 10-month period of April-January of the current fiscal. This is nearly 30% higher than the $7-billion production by the tech giant in FY23. The current fiscal is also the first year where Apple is averaging over $1 billion of production each month, compared to $620 million per month in FY23. According to sources, over 70% of the total production has been exported across countries in Europe, the US and Asia. This production has been achieved by Apple's three vendors. All three companies are participants in the government's smartphone production-linked incentive (PLI) scheme. The scheme is considered by far the most successful of all 14 PLI schemes on multiple accounts – incremental production over the base year 2019-20, exports, job creation and investments. The three Apple vendors are required to invest Rs 1,000 crore each during the five-year tenure of the PLI scheme. All three are ahead of their original investment schedules.

5. India's merchandise exports grew at the fastest pace in 20 months at 11.9 per cent in February, overcoming the Red Sea crisis and falling commodity prices. This is the highest exports in 11 months (in value terms). We have surpassed all predictions. March figures should also be very good. It shows resilience in the export sector. The 2024-25 financial year will also be very good," Commerce Secretary Sunil Barthwal said.

Top Personal Finance News – March 2024

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