MONTHLY NEWSLETTER – SEPTEMBER 2015

I-CAN FINANCIAL SOLUTIONS

MARKET UPDATE

Sensex : Down 6.5% Nifty : Down 6.6%	
Best performing sector: Healthcare (5.3%)	Worst performing sector: Metal (-14.1%)
Best performing global index: Russian RTS Index (-2.94%)	Worst performing global index: Chinese Shanghai Composite (-12.49%)
Indian Rupee: -3.65%	Gold price: 8%

The month of August was extremely turbulent for financial markets across the world. India was also not spared. The major dent in the sentiment was caused by the sharp devaluation of the Chinese Yuan by 1.9% on 11th August, followed by 1.6% the very next day. China's manufacturing activity for August confirmed fears that its economy is not in good shape. China's flash manufacturing Purchasing Manager's Index (PMI) for August dropped to a six-year low of 47.1. The Yuan depreciation has will take some time before it brings any relief to the Chinese economy, but it has surely rattled the capital markets all over the world. This is how integrated we are as a global economy.

The Indian Rupee took a hit – however, its depreciation is the least in comparison to other emerging markets. This highlights the Indian economy's strong fundamentals. To add to global worries, domestic rainfall also dipped sharply in August – 24% below normal. The markets were also disappointed by the monsoon session of the Parliament which saw protests by the Opposition washing out almost the entire session. Centre's most important reform bill, the Goods and Services Tax (GST) bill by the Rajya Sabha. Government has been considering calling a special session of Parliament sometime in the second week of September to pass the Bill. The government's inability to push through the contentious land legislation came as a blow to its reform agenda. FIIs pulled out Rs. 16,877 crore from equity and Rs. 647 crore from debt from domestic markets. In fact, the month of August is the month of the highest monthly outflows since 2008.

However, the good news is that RBI Governor Raghuram Rajan said that India has $ 355 billion worth of dollar reserves – which will help in the prevention of undue volatility in the currency markets. Also, July CPI inflation eased to 3.8% compared to last July. Inflation rose 0.6% compared to June'15, half the pace of the month before. The RBI had highlighted in this month's policy review that July-August inflation will be distorted by base effects. However if August inflation (due mid-September) also undershoots the RBI's CPI fan chart significantly, probability of a cut in September will rise. Another green shoot is that on the on 27th August government released a list of 98 cities selected for the smart cities project aimed at kick-starting the next wave of planned urbanisation in India.

Factory output expanded at an annual rate of 3.8% in June, helped by a sharp rebound in demand for consumer goods. Global agency

Moody's on 25th August said it will upgrade India's rating if the government is able to push through reforms, stabilizing of inflation, regulatory environment improves and infrastructure investment rises.

There was some progress on the disinvestment front. The government mobilized over Rs. 9,300 crore from a 10% stake sale in IOC, which is the largest one this financial year, although it was rescued largely by institutional investors like LIC. Till date the government has met less than 20% of the full-year disinvestment target.

Sukanya Samriddhi Account: New Scheme for Girl Child in India

Sukanya Samriddhi Account is a welcome step by the government of India which is a part of its "Beti Bachao - Beti Padhao" initiative and was launched on 22nd January 2015. It is a small savings scheme. It is also considered a part of the government's initiative to increase the percentage of domestic savings, which has reduced from 38% of the GDP in 2008 to 30% in 2013. This scheme will encourage parents to save for the education and future of their girl child.

Highlights of Sukanya Samriddhi Account Yojana

- **Account in the name of the beneficiary**: The account can be opened only by parents or legal guardians for upto two girl children. Sukanya Samriddhi Account can only be opened in the name of the girl child. The depositor (guardian) will be an individual, who deposits amount in the account on behalf of the minor girl child.
- **Age Eligibility:** A Sukanya Samriddhi account can be opened for a girl child till she attains the age of 10. Only one account can be opened per girl child.
- **Where to open Account:** Sukanya Samriddhi account can be opened in Post Offices or authorized Banks
- **What Are the Documents Required for Opening an Account?**
  1) Certificate of Birth of the Girl child
  2) Proof of Address of parents/guardians
  3) Proof of identity of the parents/guardian

- **Contribution:** A minimum contribution of Rs. 1000 per account has to be deposited per year. Failure to do so will make this account inactive and the same can be activated again by paying a penalty of Rs. 50 along with the minimum amount required to be deposited for that year i.e. Rs. 1,000 at present. A maximum of Rs. 1,50,000 per account can be deposited. There is no limit in the number of deposits in a financial year.
- **Term Period:** The guardian is expected to deposit amount in the account only till the completion of 14 years. No deposits after that is required till the maturity of the account.
- **Duration of Sukanya Samriddhi Scheme:** The total duration of the scheme is 21 years and it will mature on the completion of 21 years right from the date of opening of this account. One can even continue to earn interest as specified every year if account is not closed after completion of 21 years.
- **Rate of Interest:** The scheme is offering an interest rate of 9.1% per year. However, it will be revised in April every year and the change will be communicated subsequently. The interest will be compounded yearly and directly credited to the account.
- **Withdrawal:** A premature withdrawal (at the end of the previous financial year) of 50% of the accumulated amount is allowed after the girl child turns 18.
- **Closure of Account:** The account can be closed only after the child turns 21. If the money is not withdrawn even after that, it will continue to earn the interest.
- **Taxation:** Any amount that would be deposited in Sukanya Samriddhi Account would be exempted from tax under 80C of IT Act, 1961, till a maximum of Rs 1.5 lakh. The interest and maturity amount on this account is also exempted from income tax.

Advantages	Disadvantages
High interest rate – one of the best in market.	Lock in period is on higher side.
Tax benefits under 80C of Income Tax act.	Limited to 2 girl child of the parents.
Maturity amount to be given directly to the girl child.	Does not facilitate online transfer
Interest would be paid even after maturity of the account, if it is not closed by the account holder or depositor.	No assured Interest rate for the entire period of the deposit.
No fixed number of deposits. Account can be transferred anywhere in India.	
Girl child / Account holder may operate her account, if she wishes to. This would give a lot of financial independence to the girl child as well.	

Pradhan Mantri Suraksha Bima Yojana

THE PRADHAN MANTRI SURAKSHA BIMA YOJANA

Pradhan Mantri Suraksha Bima Yojana is a government-backed accident insurance scheme in India. It is an insurance policy which covers death or disablement of the policyholder caused due to accident or accidental injuries. The scheme will be a one year cover Personal Accident Insurance Scheme, renewable from year to year, offering protection against death or disability due to accident.

Highlights of the Pradhan Mantri Suraksha Bima Yojana

Highlights of the Pradhan Mantri Suraksha Bima Yojana (PMSBY - Scheme 1 - for Accidental Death Insurance) are:

- **Eligibility:** Available to people in age group 18 to 70 years with bank account.
- **Premium:** Rs.12/- per annum per member.
- **Payment Mode:** The premium will be directly auto-debited by the bank from the subscribers account. This is the only mode available.
- **Renewal:** Subscribers have to renew this accidental cover every year. If they don't want to have the hassle of renewing the cover every year, they can give an instruction for auto-debit of bank account every year.
- **Risk Coverage:** For accidental death and full disability - Rs 2 Lakh and for partial disability - Rs 1 Lakh.
- **Eligibility:** Any person having a bank account and Aadhaar number linked to the bank account can give a simple form to the bank every year before 1st of June in order to join the scheme. Name of nominee to be given in the form.
- **Terms of Risk Coverage:** A person has to opt for the scheme every year. He can also prefer to give a long-term option of continuing in which case his account will be auto-debited every year by the bank.
- **Who will offer this scheme?** The scheme will be offered by all public sector general insurance companies - New India Assurance Company, National Insurance Company, The Oriental Insurance Co, and United India Insurance Co - through tie-ups with banks. The government also plans to rope in other insurers as well.
- **Master Policy Holder:** Participating Bank will be the Master policy holder on behalf of the participating subscribers. A simple and subscriber friendly administration & claim settlement

process shall be finalized by the respective general insurance company in consultation with the participating Banks.

- **Taxation:** The premium paid will be tax-free under section 80C and also the proceeds amount will get tax-exemption u/s 10(10D).But if the proceeds from insurance policy exceed Rs.1 lakh, TDS at the rate of 2% from the total proceeds if no Form 15G or Form 15H is submitted to the insurer.
- **Termination of cover:** The accident cover for the member shall terminate on any of the following events and no benefit will be payable there under:
  1) On attaining age 70 years (age nearest birth day).
  2) Closure of account with the Bank or insufficiency of balance to keep the insurance in force.
  3) In case a member is covered through more than one account and premium is received by the Insurance Company inadvertently, insurance cover will be restricted to one only and the premium shall be liable to be forfeited.
  4) If the insurance cover is ceased due to any technical reasons such as insufficient balance on due date or due to any administrative issues, the same can be reinstated on receipt of full annual premium, subject to conditions that may be laid down. During this period, the risk cover will be suspended and reinstatement of risk cover will be at the sole discretion of Insurance Company.
  5) Participating banks will deduct the premium amount in the same month when the auto debit option is given, preferably in May of every year, and remit the amount due to the Insurance Company in that month itself.

AMC VIEWS

Equity Outlook: IDFC Asset Management

Dollar strength on expectation of a Fed funds rate hike later this year led to weakness in commodities and commodity currencies across the world. China's weakness and extreme stock market volatility despite government interventions added to the commodity woes and emerging market volatility. Indian markets exhibited resilience amidst these global developments albeit not without a dose of volatility. FII flow for the month has been USD 885.8mn and the YTD flows have been a healthyUSD7.069bn.

The commodity fall has singlehandedly led to an improvement in key macroeconomic variables of inflation, fiscal and the external sector and it looks like the commodity weakness will persist sustaining the India's macro advantage thereby creating room for fiscal and monetary accommodation. This should stimulate demand and lead to a gradual recovery in the growth and earnings profile for India Inc.

We are in the middle of the results reasons. Demand and pricing power remain elusive in the broader market as is evident from the weak revenue growth (6.2% Growth YoY) of the companies that have declared their results so far (29 out of 50). Two of the major sectors which have hampered revenue growth are Oil & Gas sector due to lower energy prices and public sector banks with a poor credit cycle impacting growth. Private sector banks and Autos have contributed positively to revenue growth. The outsourcing part of the economy was supported by currency depreciation (6% YoY against USD). However the core business growth seems to be slowing down for technology companies as the sector transitions to emerging technologies where Indian companies need to catch up. The positive read in the quarterly numbers is an improvement in the gross margin profile of the corporate sector in line with lower commodity prices. Another positive read through is the balance sheet unlocking / consolidation in commodity consuming sectors with working capital coming down. These trends if sustained will lead to an improvement in the capital efficiency and unlock some capital for capex.

We are contesting that recovery will be a gradual process with the growth engines slowly warming up. Recovery will be predicated on a domestic recovery led by government capex in select sectors, new and emerging sectors aligned to the regulatory framework (GST, Renewables, Low cost housing) and higher capacity utilisation of existing capacities. The new growth framework is predicated on higher productivity and capital efficiency with no free or cheap resources and the companies which emerge will have an inherent strength in their business models which will hold them in good stead for the years to come. These are interesting times to align portfolios with the aforesaid opportunities and companies.

Debt Outlook: IDFC Asset Management

The downswing in the commodities market worsened during the month, with WTI crude oil witnessing the biggest monthly fall of 21% in 7 years, Brent crude oil falling 18% and Gold by 6.5% during the month (in USD terms). Bloomberg. Index of Commodities has fallen 10.62% over the month, the most since September 2011. The continued fall in commodities is largely on account of low demand due to weak economic data across globe (especially from China, the largest metal user), strengthening dollar on expectation of Fed rate hike and an oversupply (especially for oil – rising output from OPEC and the expected output from Iran post lifting of international sanctions). For India, this fall in commodities can be seen as a positive for bond markets in terms of keeping the inflationary pressures off.

For large part of the month the market focus was on Greece. While Greek Prime Minister ended talks with creditors in June to hold a public referendum, which went the 'No' way, he later turned course to once again enter into deals with creditors for a bailout. Another global event that garnered attention is the continued turbulence in the Chinese stock markets and the slowdown of the second largest economy, with the latest Chinese PMI continuing to indicate contraction.

While there was an acknowledgement of improved economic data points in the latest FOMC meeting, there was no clear indication of the rate cut timing. While some market participants were expecting a rate hike as soon as September'15 post the FOMC meet, the recent quarterly wage growth data in the US (at its lowest since 1982) could dampen this expectation. Even as the prospects for the first US rate hike draw near, we believe it is possible for RBI to cut rates further.

While the US rate hike cycle between 2004 to 2006 coincided with RBI also hiking rate, the phase had witnessed a significant rise in commodity prices. Hence, RBI's rate hikes were necessary to keep policy rates static. In contrast today, we are clearly in a global commodity downswing. Further, our Basic Balance (i.e. Current Account Deficit plus FDI) currently is at comfortable levels and is consistent with a much narrower real interest rate differential.

In its 4 August'15 monetary policy review, RBI kept all rates unchanged as expected. In our view, the assessment was on the margin more dovish and more focused on the medium term than the previous one. RBI has reduced its inflation projection for January – March 2016 by 0.2% and changed its assessment of risks to the 6% January 2016 inflation target from 'upside' to 'broadly balanced'. It has also retained the growth forecast for the year at 7.6%. While RBI is worried about the recent firming up in inflation at both core and headline level, as well as the recent rise in near term household inflation expectations, it has balanced its assessment on inflation by focusing on 'significant mitigating influence'. These include the sharp fall in crude oil prices since June and the likelihood of this to persist in view of global supply glut, increase in planting of pulses and oilseeds and prospects of rainfall in August and

September according to some forecasters, effects of government's current pro-active supply management to contain shocks to food prices, and its decision to keep increases in minimum support prices (MSP) moderate.

The RBI is cognizant of the recent pressures on inflation and is waiting to see whether the mitigating factors in play will be enough to offset these pressures. Given that it has reduced its forward inflation forecast, it looks likely that it assesses that the mitigating factors will ultimately prevail. While it waits, it has been careful to reiterate the accommodative stance of policy as well as emphasize that it will look for emerging room for more accommodation. Given banks' incremental credit to deposit ratio (tracking 41% YTD) lending more appetite for bonds, and a large sized commodity downswing in play currently, we would expect market interest to be quite stable. Our medium term view remains unequivocally bullish bonds.

Did you know?

Pradhan Mantri Jan Dhan Yojana was listed in Guinness book of world record as over 125 million bank accounts were opened.

Cartoon of the Month