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COMMUNIQUÉ

SEPTEMBER  
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## MONTHLY NEWSLETTER – SEPTEMBER 2021

<b>Sensex : Up 9.4%</b> <b>Nifty : Up 8.7%</b>	
Best performing sector: IT (13.4%)	Worst performing sector: Media (-10.8%)
Best performing Global index: MerVal (15.6%)	Worst performing Global index: Straits Times (-2.0%)
Indian Rupee: 1.9%	Gold (International): -0.2%

Indian equity benchmarks Sensex and Nifty staged a very strong rally of around 9% in the month of August. The S&P BSE Mid Cap and Small Cap indices were up by 3% and 0.5% respectively. The benchmark 10-year government bond yield inched up marginally from 6.2 to 6.22% in the month of August.

Foreign institutional investors (FIIs) invested a net amount of Rs. 2,082.9 crore in equity markets and Rs. 12,144.1 crore in bond markets last month.

US Federal Reserve Chairman Jerome Powell's address at the Jackson Hole Economic Policy Symposium on August 26-28 was a much awaited event. Markets rejoiced after Powell signaled patience for now and mentioned that the Fed might reduce the pace of asset

purchases in 2021 and that hiking rates is still some time away.

A very positive macroeconomic development was that the Indian GDP expanded by 20.1% in the April-June 2021 quarter. Manufacturing and construction grew by 49.63% and 68.3% respectively. However, private consumption was hit due to the Covid-19 second wave. It grew at 19.34% but was 11% lower compared to growth in the pre-Covid year of FY20. The prediction for the full-year growth remained unaltered at around 9%. Moody's retained the 9.6% growth forecast for 2021 and 7% for 2022.

The daily average new cases in the last week of August was around 42,000. Active cases constituted 1.15% of the total cases with a recovery rate of 97.51%. The vaccination pace in the country has accelerated to 71 lakh doses per day (7-day moving average) in the last week of August. It was just 17.96 lakh on the first day of August. The government plans to further improve the speed of inoculation by targeting 1 crore doses per day. India currently is second only to China in terms of the total doses administered. More than 63 crore vaccine doses have been administered so far.

Factory output measured by the index of industrial production (IIP) rose 13.6% in June compared to the year-ago period.

According to Nomura business activity is continuing to rise above the pre-pandemic levels. The Nomura India Business Resumption Index (NIBRI) rose to 102.7 for the week ending 29 August compared to 101.3 in the previous



week. Business activity was above pre-Covid levels for second week in a row.

The Manufacturing Purchasing Managers' Index (PMI) reduced from 55.3 in July to 52.3 in August. The manufacturing sector continued to expand but there was some deceleration in momentum in August due to lower demand. India's Services PMI increased from 49.2 in July to a 6-month high of 55.4 in August. (A reading above 50 indicates expansion)

India's exports surged by 45.17% to \$33.14 billion in August owing to robust growth in sectors like engineering, petroleum products, gems and jewellery and chemicals. Imports grew by 51.47% to \$47.01 billion. The trade deficit widened to \$13.87 billion.

According to Cushman & Wakefield's 2021 Global Manufacturing Risk Index India is the second most sought after manufacturing destination across the world, next only to China. India's ranking is also ahead of global superpowers like the US. Factors attributing to this include India's operating conditions and cost competitiveness.

The wholesale price inflation softened from 12.07% in June to 11.16% in July, remaining in the double-digit territory for the fourth consecutive month. India's retail inflation eased from 6.26% in June to 5.59% in July. In the August Monetary policy review, RBI kept the repo rate unchanged.

In the April-July period the fiscal deficit touched 21.3% (Rs. 3.21 lakh crore) of the full-year target. The government has targeted a fiscal deficit of 6.8% of GDP.

CRISIL Ratings, expecting a broad-based recovery for Indian companies, upgraded its credit quality outlook to 'positive' from the earlier 'cautiously optimistic'. Indian stock markets are flooded with IPOs this year. After

over 40 IPO listings in 2021, 29 more companies have submitted their documents with SEBI in August. This is the highest ever monthly tally in the last 17 years.

#### Reforms

- The government announced plans to integrate four pension and insurance schemes, including health assurance scheme Ayushman Bharat, with the informal sector database that is under development. The rest of the schemes include Pradhan Mantri Shram Yogi Maandhan Yojana (PMSYM), Pradhan Mantri Suraksha Bima Yojana (PMSBY), and the Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY).
- The Ministry of Civil Aviation relaxed the rules regarding drone operations by reducing the number of forms needed to operate them from 25 to 5 and bringing down the types of fees charged from 72 to 4.
- The Lok Sabha cleared the Limited Liability Partnership (Amendment) Bill which seeks to decriminalize certain provisions and improve the ease of doing business.
- The government has given an in-principle approval to set up 21 greenfield airports in the country. Six airports have been operationalized, namely Shirdi in Maharashtra, Durgapur in West Bengal, Pakyong in Sikkim, Kannur in Kerala, Orvakal in Andhra Pradesh and Kalaburagi in Karnataka.
- SEBI issued further guidelines regarding risk-o-meter disclosure by mutual funds effective 1 October, 2021. Mutual funds have been asked to mention the risk-o-meter of the scheme and its benchmark in all the promotional communications. Mutual funds need to provide a link to each investor which allows them to view or download the risk-o-meter.

- As per SEBI's new peak margin rules, starting from 1 September'21 traders will need to shell out 100% margins upfront on their trades. Going forward, margin requirements will be calculated four times during every session unlike the earlier system of end-of-the-day calculation.
- SEBI introduced guidelines on eligibility criteria for accredited investors (AIs). An AI is identified as one on the basis of net worth/income criteria. This move is expected to open a new channel to raise funds from sophisticated investors. Under this new framework, AIs can avail benefits like lower ticket

size or concessions from regulatory requirements applicable to investment products.

- The Deposit Insurance and Credit Guarantee Corporation (Amendment) Bill, 2021 was passed in the Lok Sabha which will provide security to deposit holders by allowing access up to Rs. 5 lakh within 90 days of a bank coming under a moratorium imposed by RBI.



## What is a REIT?

A Real Estate Investment Trust (REIT) is a pooled investment (like a mutual fund) which manages a portfolio of real estate assets. The objective is to generate regular income and capital appreciation. Units of a REIT are sold to investors

through a public offer. Once the REIT is listed it can be traded in the secondary market through exchanges. Unlike a mutual fund a REIT tries to deliver a majority of its returns through income distribution.

### Classification of REITs

- a) Equity REITs: Hold properties like offices, hotels, shopping centres, condominiums and maximum revenue comes from rent from these
- b) Mortgage REITs: Look after financing of residential or commercial properties and earn revenues in the form of interest earned on investment in mortgages or mortgage backed securities (MBS).
- c) Hybrid REITs: Invest in both equity and mortgage REITs.

### SEBI Guidelines

- At least 80% of the REIT's portfolio by value needs to be invested in completed and rent-generating properties. The remaining 20% can be invested in under-construction properties, listed or unlisted debt of real estate companies, mortgage-back securities, government securities and money market instruments.



- 90% of the income must be distributed to investors in the form of dividends.
- NAVs to be updated twice in every financial year

#### Advantages of investing in REITs:

- i. With a small outlay an investor can get access to a diversified portfolio of properties. The minimum investment amount is in the range of Rs. 10,000-15,000.
- ii. It is more liquid than a physical real estate property.
- iii. It is easier to invest in REITs compared to a tangible real estate asset.
- iv. There is transparency – the portfolio is disclosed semi-annually.
- v. In terms of risk profile it is somewhere in between equities and bonds – making it suitable for moderate risk-profile investors. However, it is important that investors understand the product well before investing.

#### Disadvantages/risks of investing in REITs:

- i. Rent and capital appreciation depends on market conditions
- ii. Currently the choices are limited as there are only three REITs in India: Embassy Office Parks, Mindspace Business Parks and Brookfield India Real Estate Trust.
- iii. The taxation is more complicated than fixed income instruments

#### How are REITs taxed?

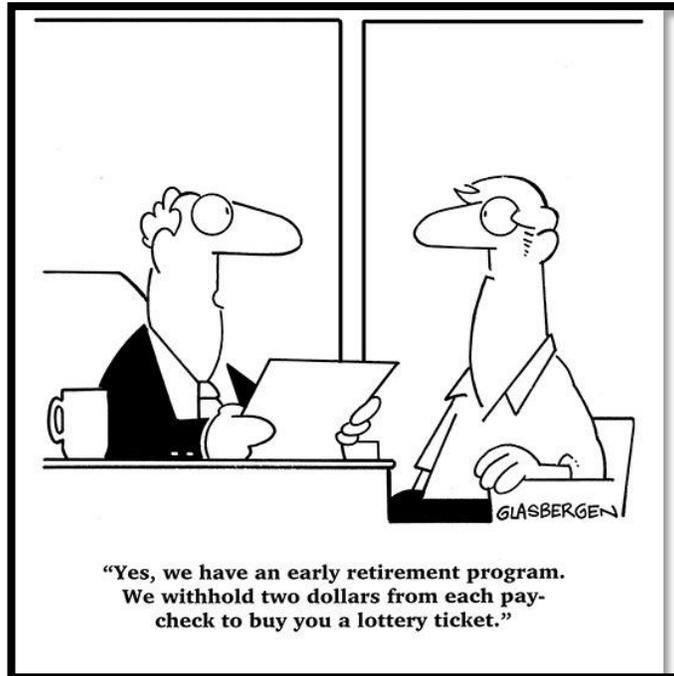
The tax liability is decided based on the nature and proportion of receipts. Income received in the form of dividend, rent and/or interest will be treated as dividend, rental income and/or interest income respectively in the hands of investors. When the REIT is sold the investor is subject to short- or long-term capital gains tax depending on the holding period of the investment. Any short term capital gains arising on the transfer of units shall be chargeable to tax at 15 per cent, whereas long term capital gain shall be charged to tax at 10 per cent if the amount exceeds Rs 1 lakh.

It is advisable to evaluate the suitability to your risk appetite, time horizon and liquidity needs before investing in REITs. Please consult your financial advisor before investing.

### Did you know?

North Korea and Cuba are the only places you can't buy Coca-Cola.

### Cartoon of the Month





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