I-CAN COMMUNIQUÉ

I-CAN FINANCIAL SOLUTIONS

MARCH 2020

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MONTHLY NEWSLETTER – MARCH 2020

Sensex : Down 6% Nifty : Down 6.4%	
Best performing sector: Telecom (0.4%)	Worst performing sector: PSU Bank (-17.8%)
Best performing Global index: Hang Seng (-0.7%)	Worst performing Global index: Russian RTS (-14.3%)
Indian Rupee: -1.1%	Gold (International): -1.2%

Stock markets across the world are shaken by a sell-off due to fears of the coronavirus turning into a pandemic. If the virus spread is not contained it will impact supply-chain and dampen the prospects for various sectors like pharma, auto, electronics, consumer durables, smartphones, tourism and gems and jewellery. In the last week of February alone $5 trillion in value of global wealth was wiped out. Since the 2008 Sub-Prime Crisis this is the fastest collapse of global stock markets. The virus has spread from China to Korea, Japan, Europe and the US. In all, around 50 countries have seen cases of the virus. The number of confirmed cases globally has crossed the 1 lakh mark. The confirmed cases in India crossed 30. The central banks globally are bracing for a period of easy monetary policy as the risks of a slowdown intensified. The global crude oil demand has seen a dip – driving the prices down. Global brokerage firms like Morgan Stanley lowered the price target for emerging markets and the Asian markets.

The Indian headline indices fell by around 6%. The S&P BSE Mid and Small Cap Indices fell by 5.6% and 6.5% respectively. The 10-year government bond yield fell by 23 basis points to 6.37%. The net investments by foreign institutional investors in February totaled Rs. 1,819.8 crore and Rs. 2,096.7 crore in the equity and bond markets respectively.

The Indian economy grew at 4.7% in the September – December 2019 quarter. This is a slight improvement from the previous quarter growth of 4.5%. According to a report by a US-based think tank named World Population Review, India overtook the UK and France to become the world's fifth largest economy. Standard and Poor's retained India's sovereign ratings at 'BBB-' with stable outlook, saying the country's GDP is likely to gradually recover towards longer-term rates over the next two to three years. IMF said that India urgently needs more ambitious structural and financial sector reform measures and a medium-term fiscal consolidation strategy due to the rising debt levels while ensuring a more accommodative fiscal stance in the budget.

India’s fiscal deficit for the first 10 months through January was Rs 9.85 lakh crore which is 128.5% of the revised budgeted target for the current fiscal. Factory output measured by the Index of Industrial Production (IIP) grew by -0.3% in December’19 after showing some positive recovery of 1.8% in November’19. India Manufacturing Purchasing Managers’ Index (PMI) was 54.5 in February - close to January’s near eight-year high of 55.3, signalling improvement in operating conditions across the sector. The moderation was owing to impact of the Corona Virus outbreak. The Services PMI increased to 57.5 in February from 55.5 in January. This is the fifth consecutive rise in the number. A showing above 50 indicates expansion, while that below 50 points to contraction.

Consumer Price Index-based inflation (CPI) increased by 7.59% in January. This is the second consecutive month in which the reading is above RBI’s comfort level of 6%. This is the highest retail inflation rate since May 2014. Higher food and fuel prices also led the Wholesale Price Index-based inflation (WPI) to inch higher to 3.1% in January – the highest in the last eight months. On 6th February RBI kept the repo rate unchanged in its Monetary Policy Review because of concerns over rising inflation. RBI increased its inflation projection for the second half of the financial year to 5.4-5.0% from the previous forecast of 5.1-4.7%. RBI continued to maintain an ‘accommodative’ stance and announced measures to boost credit flows. Banks will be given cash reserve ratio relief on incremental auto loans, retail housing loans and and all micro, small and medium enterprises loans.

US President Donald Trump visited India on 24-25 February. He was accompanied by his wife Melania Trump, daughter Ivanka Trump and son-in-law Jared Kushner. During the visit he had extensive discussions with PM Narendra Modi on defence ties and other issues. Trump announced that defence deals worth $3 billion will be finalized. No trade deal was signed. US decided to wait for a more ambitious deal later in the year. The visit is widely considered to be significant and symbolizes better ties between India and the US in the days to come.

Arvind Kejriwal-led Aam Aadmi Party (AAP) won the Delhi Assembly election with a landslide victory by winning 62 of the 70 seats. BJP bagged the remaining 8 seats.

The Union Budget for 2020-21 was unveiled in February. Our note and summary on the same was circulated in the previous Communique.

Reforms

- Insurance Regulatory and Development Authority of India (IRDAI) is considering allowing life insurance companies to offer indemnity-based health insurance plans.
- SEBI barred distributors of mutual funds from acting as investment advisors to the same clients.
- In order to contain fiscal slippage the government has asked ministries to limit their expenditure to 10% of their budget allocations in March as compared to 15% of the earlier limit.

- SEBI rolled out guidelines for compulsory performance benchmarking for Alternative Investment Funds (AIFs) in order to streamline disclosure standards.
- The road transport and highway ministry is speeding up the transition to electronic toll collection (ETC).
- SEBI permitted investors to use the stock exchange infrastructure to buy and sell mutual fund units directly from asset management companies.
- The scope of services covered under Ayushman Bharat is likely to be expanded in April to include additional packages such as basic oral care, elderly and palliative healthcare and emergency medical services.
- IRDAI modified the definition of pre-existing diseases. This should reduce the rate of claim rejections in health insurance. The regulator deleted 'the additional/modified clause' which means that certain specific diseases will not be treated as pre-existing even if diagnosed within three months, or later, after buying the health insurance policy.
- SEBI proposed a stronger framework to regulate corporate bond and debenture trustees to make debt mutual fund investments safer.
- IRDAI plans to introduce a common portal for health insurance claim settlements.
- SEBI banned the transfer of client securities to demat accounts of trading and clearing members.
- The Pension Fund Regulatory and Development Authority (PFRDA), the regulator of the National Pension System (NPS), has doubled the minimum net worth criterion for pension fund managers to Rs. 50 crore from the Rs. 25 crore stipulated earlier.
- SEBI prohibited Portfolio Management Services (PMS) providers from charging upfront fees to clients directly or indirectly. The operating expenses (excluding brokerage) of PMS providers, over and above the fees charged to the clients, is capped at 0.5% annually of the client's average daily assets under management.
- The Department of Industry and Internal Trade (DPIIT) amended the policy to allow 100% foreign direct investment (FDI) for insurance intermediaries.
- The government approved major changes in the Pradhan Mantri Fasal Bima Yojana (PMFBY), which includes making it optional for farmers.
- The government raised over Rs 3,200 crore by selling about 2.91% stake in Coal India Ltd.
- The Government approved setting up of 10,000 new farmer produce organisations (FPOs) by 2024 with budgetary support of nearly Rs 4,500 crore as part of its efforts to cut production cost and boost income of the farming community.

A Beginner's Guide to IPOs

Initial Public Offering or IPO is a process by which a privately held company becomes a publicly traded company by offering its shares to the public for the first time. The company's shares are then listed on a stock exchange for trading. The money invested by investors in the IPO is then utilized for purposes such as purchase of new equipment, land, debt repayments etc.

When you purchase shares during the IPO period it is called investing in the 'primary market'. When you purchases already listed stocks it is called investing in the 'secondary market'.

The following factors need to be kept in mind before you choose to invest in an IPO:

i. Do you know the company?
It is advisable to read the Company Prospectus before investing in an IPO. The same is available on the SEBI website. It contains a lot of information about the company including its financials, market position, history and the objective of the IPO. Do a thorough background check on the company and promoters. If there have been cases of fraud or litigation in the past it is a big red flag.

ii. Is the IPO getting oversubscribed?
An IPO has a specific number of pre-defined shares allocated to each category of investors – Retail, HNI and Institutional. If the IPO is in high demand there are chances of oversubscription – in which case you may get lesser shares than you applied for. You should bid accordingly. This year many IPOs, including IRCTC, Ujjivan Small Finance Bank, CSB Bank, got subscribed multiple times, and many retail investors were left disappointed as they didn't get share allotment.

iii. Do you have a long term horizon?
It is suggested to invest in a sound business from a long term perspective rather than make a speculative investment only for the purpose of listing gains. If the company is well managed and has strong fundamentals you will make gains over a long period even after the listing period is over.

iv. Is the IPO reasonably priced?
This is not an easy question to answer. Lot of expertise is needed to determine whether the share price of the IPO is fair. One easier way to check this is compare

the valuation to a close competitor in the same industry. If you find that the IPO is expensive using parameters like price-to-earnings ratio or price-to-book ratio, then you can avoid investing.

What is the IPO allotment process?

The Share allotment in an IPO is done as per SEBI rules. The regulator's share allotment rules state that the minimum bid lot is defined based on the minimum application amount, which cannot exceed or fall below Rs 10,000-Rs 15,000. Retail investors can be allotted at least one lot. Bids that are at or above the issue price only qualify for share allotment. Shares left thereafter are allotted on the basis of a draw of lots.

SEBI guidelines mention that in case of oversubscription in the retail category, the maximum number of retail investors who can be allotted the minimum bid lot is computed by dividing the total number of equity shares available for allotment to retail institutional investors (RII) by the minimum bid lot, after technical rejection. For instance, in the case of CSB Bank the minimum bid lot was 75 equity shares. The quota reserved for retail investors in the issue was 18 per cent, or 21,00,906 shares, but it was subscribed 44.53 times, or 9,35,51,025 shares. There were 9,57,193 retail applications for the issue, but since retail investors in any IPO could not get less than one bid lot (75 shares in this case), only 28,012 shareholders (21,00,906 shares/one lot of 75 shares) were allotted shares. A total of 21,00,900 shares were, thus, allotted to all retail bidders and the 6 remaining shares were allotted based on a draw of lots.

If the demand of shares is lower than the number of shares available in the retail category, irrespective for their application size each investor gets full allotment.

It is important to bear in mind that not all IPOs are good investments and not all IPOs are bad investments. The factors mentioned above decide. IPOs are risky – it is suggested you allocate a small portion of your total savings into direct stock investing. Make your core portfolio using managed vehicles such as mutual funds with the help of a good financial advisor.

Did you know?

Shaktikanta Das, the governor of the Reserve Bank of India (RBI), has been named 'Central Banker of the Year 2020 – Asia-Pacific' by The Banker. The Banker is a London-based international financial affairs publication owned by

Cartoon of the Month

"At our current savings rate, we should be able to retire in three hundred and twenty-seven years."

Top Personal Finance News – February 2020

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