I-CAN COMMUNIQUÉ

OCTOBER 2018

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MONTHLY NEWSLETTER – OCTOBER 2018

Sensex : Down 6.3% Nifty : Down 6.4%	
Best performing sector: Information Technology (0.2%)	Worst performing sector: Real Estate (-20.5%)
Best performing Global index: Argentina's MerVal (14.2%)	Worst performing Global index: Nifty 50 (-6.4%)
Indian Rupee: -2.1%	Gold price: 0.4%

September was one of the most brutal months for the Indian equity markets. For the S&P BSE Sensex and Nifty 50 indices, it was the worst month since February 2016 as both fell by more than 6%. The BSE Smallcap and Midcap indices have fallen by 16% and 13%, respectively, in September- their steepest monthly fall since October 2008. The benchmark 10-year Government of India bond yield rose by 7 basis points to 8.02%.

The stock markets have been gripped by fears related to a fast depreciating Indian Rupee and the continued rise in the international price of crude oil. The crude oil prices had reached to around $85 per barrel – the highest in the last 4 years. The month end price was almost $83/barrel. Higher crude oil prices increase India's import bill and further put pressure on the Rupee. India's current account deficit had widened to 2.4% of gross domestic product (GDP) in the April-June period because of rising crude oil prices, from 1.9% of GDP in the previous quarter. Also, emerging markets have got impacted by rising interest rates in the US. The US Federal Reserve hiked its key policy rate by 25 basis points. It has indicated the possibility of 3 rate hikes in 2019.

To add to the woes, there was a major event in the non-banking financial companies sector. The credit rating of India's leading infrastructure finance company IL&FS was reduced to D category (default) from AAA in a very short span of time by rating agencies ICRA and Care Ratings. A sense of panic spread among market participants in relation to other non-banking financial companies as well. It became difficult for IL&FS to raise more money from the debt markets. 25 mutual funds schemes had a total exposure of around Rs. 2,700 crore of IL&FS bonds. Their Net Asset Values (NAVs) took a hit – raising concerns among mutual fund investors too. There was hope that major shareholders – LIC, HDFC, Japan's Orix Corporation and Abu Dhabi Investment Authority – might be able to work out a Rs 4,500 crore rights share sale. The government had to step in. It moved the

National Company Law Tribunal (NCLT) to supersede and reconstitute the board of the firm which has defaulted on a series of its debt payments over the last one month. Uday Kotak, MD and Vice Chairman of Kotak Mahindra Bank, retired IAS officer Vineet Nayyar, former SEBI and LIC Chairman G N Bajpai, former IAS officer and ICICI's non-executive chairperson G C Chaturvedi; Director General of Shipping and Maharashtra cadre IAS officer Malini Shankar and former Deputy Comptroller and Auditor General (CAG) Nand Kishore are part of the new board. According to the government, a combination of measures including asset sales, restructuring of liabilities and fresh infusion of funds will be needed to revive the confidence of the financial markets in the company.

There were some headwinds seen in the banking space too. The Reserve Bank of India (RBI) asked Yes Bank to curtail the tenure of the current MD and CEO Mr. Rana Kapoor's till 31st January, 2019. The CEO of another major bank, ICICI Bank's Chanda Kochhar, is under probe in the Videocon loan case.

There was some relief on the inflation front as it has come within RBI's comfort level. Wholesale Price Index based inflation eased to a four-month low of 4.53% in August. The July figure was 5.09%. Consumer Price Index based inflation also cooled off to 3.69% in August compared to 4.17% in the previous month. The Nikkei India Manufacturing Purchasing Managers' Index (PMI) improved to 52.2 in September compared to 51.7 in August. Nikkei India Services Business Activity Index touched 50.9 in September, down from 51.5 recorded in August. The Index of Industrial Production (IIP) which is a measure of factory output grew at 6.6% in July. The number for June was revised from 7% to 6.8%. The trade deficit reduced to $17.4 billion in August compared to $18.2 billion in July.

Reforms

- The government re-affirmed its intent to stick to the fiscal deficit target of 3.3% of GDP for the year by announcing a Rs 70,000 crore cut in its gross borrowing programme for the year.
- In a major overhaul, SEBI capped the maximum total expense ratio (TER) – the fees levied by mutual funds from investors annually to manage their investments – for close ended schemes at 1.25% and for other schemes at 1%.
- For the second half of the financial year, the government increased by 9.8% the price of domestically produced natural gas which will make piped gas (used for cooking and transportation) more expensive. It will also increase the price of CNG and PNG.
- Bombay Stock Exchange will launch commodity derivative contracts from October 1, 2018. National Stock Exchange will launch similar contracts from October 12, 2018.
- As the interest rates in the system rise and liquidity has tightened, the RBI freed up Rs 2 trillion for the

banking system by revising the method of calculating solvency ratio.

- The Supreme Court upheld the constitutional validity of Aadhar. Aadhar is to be made mandatory only to access social welfare services. It has been ruled that it is not mandatory for opening bank accounts, mobile and internet connections, school admissions, private companies offering mutual funds, insurance policies etc. and private companies offering travel, movie tickets etc.
- The Cabinet approved the acquisition of privately-held-equity in the not-for-profit company GST Network (GSTN), which will make the company 100% government owned.
- The government hiked import duties on 19 items, including consumer electronics, diamonds, jewellery, jet fuel and leather footwear, to control the widening current account deficit. Other measures towards this objective include abolishing withholding tax on masala bonds.
- The Centre authorised construction of nearly 6.28 lakh more affordable houses for urban poor in 11 states under the Pradhan Mantri Awas Yojna, with Uttar Pradesh getting the largest share of over 2.34 lakh housing units.
- The Prime Minister launched the Ayushman Bharat–Pradhan Mantri Jan Aarogya Yojana (AB-PMJAY) in Ranchi, Jharkhand. The insurance scheme proposes to provide an annual health cover of Rs 5 lakh per family for secondary and tertiary care hospitalization. It will benefit 100 million poor households, or 500 million people and is supposed to be the world's largest healthcare programme.
- SEBI cleared a proposal to introduce new Know Your Customer (KYC) norms for Foreign Portfolio Investors (FPIs).
- E-commerce companies might have to pay tax collected at source (TDS) at up to 2% under GST from next month.

Must know benefits of RERA for Home Buyers

The Indian real estate sector had various incidents of bad experiences for buyers of properties. The benefits weighed heavily in favour of real estate developers. The Real Estate (Regulation and Development) Act, 2016 (RERA) introduced by the government aims to protect the interests of home buyers and to improve the transparency standards in the real estate sector. The Real Estate Act makes mandates each state and union territory to have its own regulator and frame the rules that will govern the functioning of the regulator. It is important to know the most important advantages that RERA offers to home buyers.

1. <u>Details in public domain</u>: After 31 July 2017, if an ongoing residential project or a new project that is more than 500 sq. metre or has more than eight apartments, wants to advertise or sell its units, it has to get registered with the real estate regulator of that state or union territory. But to be able to register, the developers are required to give all the details related to the project, to be put up on the regulator's website for the public to see. The details include registered projects in a particular area or vicinity, developer details such as name and track record, project details like approved plans, layout, carpet area etc and real estate agent details.

2. <u>Construction Schedule</u>: The home buyer has the right to know the stage-wise schedule for the construction of the project.

3. <u>Advance Payment</u>: The builder cannot demand more than 10% of the cost as advance or application fees before entering into an agreement.

4. <u>Protection from Delayed Possession or Default</u>: Developers who delay handing over possession of apartments will be penalized with a 2% interest rate above State Bank of India's lending rate to home buyers. If the builder is unable to complete the project, the buyer can claim the full refund along with interest as compensation. The interest is calculated from the due date of completion till the date on which the amount is refunded.

5. <u>Standardizes definition of 'Carpet area'</u>: Earlier there was a lot of heterogeneity in the ways of calculating the price of a property and builders used to charge for the built-up or

super built-up area. The same house area could be calculated in different ways by different parties. Thanks to RERA, the definition of 'Carpet Area' has been standardized and every home developer has to sell properties priced as per the carpet area only. It refers to the net usable floor area of an apartment, excluding the area covered by the external walls, areas under service shafts, exclusive balcony or verandah are and exclusive open terrace area, but includes the area covered by the internal partition walls of the apartment.

6. Relief from Defects in construction: If a defect is observed in the property related to structure, workmanship, quality, provision or service within 5 years from the date of possession, it has to be rectified by the builder without additional cost within 30 days. The buyer has the right to claim compensation on failure to do so on the part of the builder.

7. Grievance Redressal: Any grievance can be taken up with the state regulator set up under RERA. If you are not satisfied with the outcome, you can file your complaint with the Appellate Tribunal who will address it within 60 days, and in case it fails to do so within that time it shall record reasons for the same.

8. No more false promotions: Real estate developers can no longer sell property using false claims and promises. Every advertisement should carry the RERA registration number. In case there is an incident of false promises, the buyer can demand full refund of the advance or any other payment made along with interest.

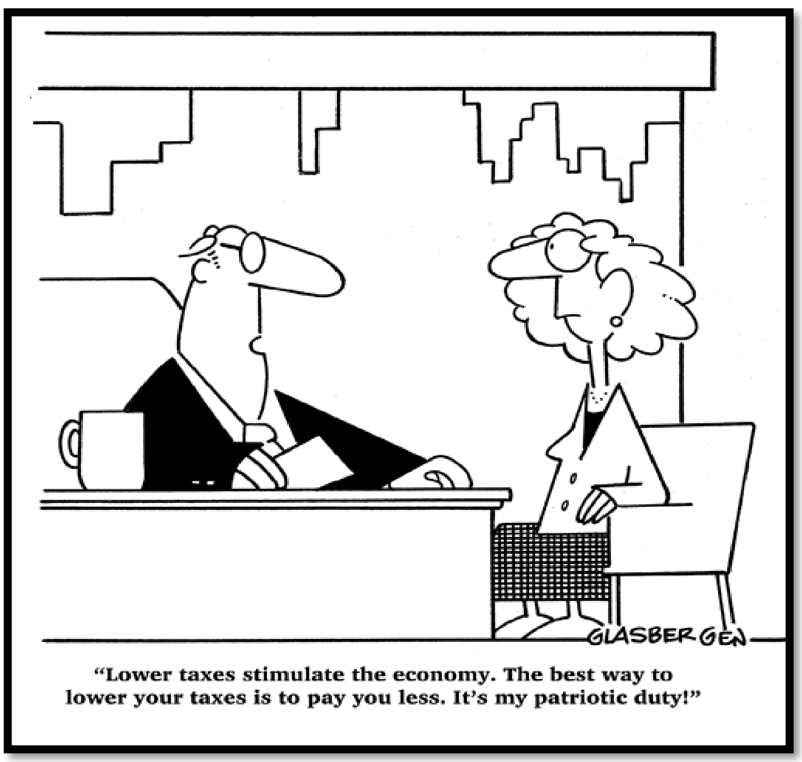
9. Title Insurance: There have been instances where once a household purchases a house, suddenly another party begin to demand that the property actually belongs to them hence challenging the ownership. Such an instance can happen even before moving into the new property. The home buyer may not be able to discover if the builder actually had undisputed ownership of the land. Title insurance protects home buyers against costs/loss arising from such problems. RERA mandated the developer to get title insurance and construction insurance for all projects.

10. Lower risk of builder bankruptcy: The developer can no longer divert funds raised from construction of one project to finance the construction of another. The builder is required to set aside 70% of the realized amount for a project in a separate bank account. It is likely to help in timely completion of the project.

Did you know?

According to psychologists, exposure to nature allows us to remember and value important things like relationships, sharing, and community.

Cartoon of the Month



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