



*Celebrating 11 years of Creating Wealth*

# I-CAN COMMUNIQUÉ

## JUNE 2023



## MONTHLY NEWSLETTER – JUNE 2023

<b>Sensex : Up 2.47 %</b>	
<b>Nifty : Up 2.6 %</b>	
Best performing sector: Transportation & Logistics ( 8.04 %)	Worst performing sector: PSU Bank (-3.3 %)
Best performing Global index: MerVal (14.8 %)	Worst performing Global index: Hang Seng (-8.3 %)
Indian Rupee: - 1.15 %	Gold (International): -1.3 %

### MACRO ECONOMIC HIGHLIGHTS

India's retail inflation rate in April fell to an 18-month low on the back of a high base and easing price pressures across categories, giving the central bank elbow room to maintain an extended pause on policy rates. Factory output growth, on the other hand, decelerated sharply to a five-month low in March, reflecting concerns about weak consumer demand. Data released by the National Statistical Office (NSO) showed that the Consumer Price Index (CPI)-based inflation stood at 4.70 per cent in April, as against 5.66 per cent the previous month. Due to moderation in the food, fuel, clothing and services prices, the headline inflation rate stayed within the Reserve Bank of India's (RBI's) upper tolerance limit for the second consecutive

month in 2023. The RBI has an inflation target of 4 per cent, with a margin of 2 percentage points on either side.

Meanwhile, growth in factory output, measured by the Index of Industrial Production (IIP), slowed to 1.1 per cent in March, from 5.8 per cent in February, largely due to a decline in output growth in manufacturing (0.5 per cent), and a contraction in electricity output (-1.6 per cent). For the full financial year (FY23), IIP growth stood at 5.1 per cent compared to 11.4 per cent in FY22. Food inflation fell to a 17-month low of 3.84 per cent in April from 4.79 per cent in March. The RBI's Monetary Policy Committee last month paused its rate-hike cycle and retained the repo rate at 6.5 per cent. The MPC has cumulatively hiked the rate by 250 basis points since last May, in order to rein in inflation, which had remained above the 6 per cent mark for most part of FY23.

Wholesale price-based inflation declined to -0.92 per cent in April on an annual basis from 1.34 per cent in March, the Department for Promotion of Industry and Internal Trade, Ministry of Commerce & Industry said. A Reuters poll had estimated a fall of 0.2 per cent. The month-over-month change in WPI for the month of April 2023 over March 2023 remained at 0.0 per cent. April is the 11th straight month when wholesale price index (WPI) based inflation has declined.

US consumer prices increased in April on higher gasoline costs and rents, while underlying inflation remained strong as used motor vehicle



prices rebounded, potentially ensuring that the Federal Reserve keeps interest rates elevated for a while. The annual increase in overall consumer prices slowed to below 5% for the first time in two years. But inflation remains more than double the US central bank's 2% target. The Federal Reserve raised interest rates by a quarter percentage point and hinted it may be the final move in the most aggressive tightening campaign since the 1980s as economic risks mount. The increase lifted the Fed's benchmark federal funds rate to a target range of 5% to 5.25%, the highest level since 2007, up from nearly zero early last year. The vote was unanimous.

Collection from Goods and Services Taxes (GST) in April surged to an all-time high of over ₹1.87-lakh crore, the Finance Ministry reported. Apart from economic recovery and improved compliance, year-end sales also helped boost the collection. The previous all-time high collection of ₹1.67-lakh crore was recorded in April 2022.

India's purchasing managers' index (PMI) for manufacturing in April increased to a four-month high of 57.2 from 56.4 in March, driven by new orders and output, said a private survey. "Several indices pointed to more favourable operating conditions across India's manufacturing industry in April. Factory orders and production rose at the strongest rates in 2023 so far, companies stepped up input purchasing owing to stock-replenishment efforts," said the survey by S&P Global.

India's services exports shot up by a record 26.6 per cent in 2022-23 (FY23) to \$322 billion, according to data released by the Reserve Bank of India (RBI), thus closing the gap with merchandise exports that grew only 6 per cent to \$447 billion in the same period.

Services imports, on the other hand, grew 22.2 per cent to \$179.7 billion, leading to a services trade surplus of \$142.5 billion. With a \$267 billion merchandise trade deficit in the last financial year, the country ended up with a cumulative trade deficit (or net exports) of \$124.5 billion.

Global ratings agency Fitch reiterated its BBB-rating with a stable outlook on India's long-term sovereign debt, saying that growth prospects have brightened as the private sector appears poised for stronger investment growth. Fitch said India would be one of the fastest-growing sovereigns globally, with a forecast of 6 per cent gross domestic product (GDP) growth for FY24 supported by resilient investment prospects. It, however, said there were headwinds from elevated inflation, high interest rates, and subdued global demand, along with fading pandemic-induced pent-up demand.

Fitch's GDP forecast for FY24 is still lower than many agencies, including Asian Development Bank and World Bank, but higher than that of the International Monetary Fund.

Goldman Sachs raised India's GDP growth forecast for calendar year 2023 by 30 basis points to 6.3%, citing a rise in exports. The earlier forecast was made in November, which showed that Indian economy will grow at 5.9%.

## **REFORMS**

Capital markets regulator Sebi came out with exhaustive guidelines for Investor Protection Fund (IPF) and Investor Services Fund (ISF) maintained by stock exchanges and depositories. The detailed guidelines are about the constitution and management of the IPF, contribution to IPF by exchanges as well as depositories, and utilization of IPF. In addition, Sebi has issued a detailed Standard Operating Procedure (SOP), indicating the process and timelines for the declaration of default of a

trading member (TM), processing of investor claims out of IPF, and review of claims, according to a circular. The IPF of the stock exchange and depository will be administered through separate trusts created for the purpose. The IPF Trust of the stock exchange and Depository will consist of five trustees, three Public Interest Directors, one representative from the investor associations, and a chief regulatory officer or compliance officer and the maximum tenure of a trustee (excluding the chief regulatory officer or compliance officer) would be five years.

To facilitate informed decision making by investors, markets regulator Sebi decided to introduce risk disclosure framework for individual traders with respect to trading in the equity Futures & Options (F&O) segment. The new framework would come into force from July 1, the Securities and Exchange Board of India (Sebi) said in a circular. Under the new framework, all stock brokers will have to display the risk disclosures on their websites and also inform all their clients in the specified manner. Upon login into their trading accounts with brokers, the clients may be prompted to read the 'risk disclosures', which may appear as a pop-up window, and would be allowed to proceed ahead only after acknowledging the same. In addition, all Qualified Stock Brokers (QSBs) have been directed to maintain the Profit and Loss (P&L) data of their clients on continuous basis. Such data of the clients need to be retained for at least five years.

Starting May 1, 2023, stock brokers and clearing members in India will no longer be allowed to use their clients' funds for bank guarantees, according to a ruling by the Securities and Exchange Board of India (Sebi). Usually, banks issue bank guarantees on behalf of stockbrokers

to stock exchanges for security deposits and margin requirements. These guarantees are submitted at clearing corporations, which then determine the brokers' trading limits. However, brokers often pledge their clients' funds with banks, which in turn issue bank guarantees for higher amounts. Banks issues BG at 2 times the amount pledged by the Broker, this exposes the market to risks. As per the circular no new BGs shall be created out of clients' funds from May 1, 2023. Existing BGs created out of clients' funds are to be wound down by September 30, 2023.

SEBI has allowed direct market access in commodities derivative trading for foreign portfolio investors. The direct access facilitates the clients of a broker to directly access the exchange trading system through the broker's infrastructure to place and execute orders without manual intervention of the broker. The access enables FPIs to have direct control over orders, faster execution of orders, reduce the risk of errors associated with manual order entry, maintain confidentiality, lower impact costs for large orders, and implement better hedging and arbitrage strategies, said SEBI. SEBI's move to reduce the core settlement guarantee fund in the commodity segment will ease the burden on exchanges, which are reeling under a drop in trading volumes. Moreover, the likelihood of default on the exchanges has reduced drastically after Sebi norms insist on upfront trading margin almost equivalent to the open position. A core settlement guarantee fund (SGF) is a corpus used for settlement of trades during defaults and all intermediaries, stock exchanges, clearing corporations, and brokers contribute to it.

## Should you invest in Sectoral Funds?

We often keep getting queries about different categories of mutual funds. One such popular category is sectoral funds. What is meant by sectoral funds and is it worth investing in them so as to generate alpha and justify the opportunity cost of investing in a diversified equity scheme? Let us find out.

1. Equity mutual funds that invest at least 80% AUM in companies of a particular sector are known as sectoral funds.
2. These funds are very highly risky since their fate depends singly on the chosen sector. Thus, they may significantly underperform or outperform the frontline indexes and also the actively managed diversified equity mutual funds.
3. However, if we are able to analyse prospects of a particular sector well, we might be able to generate alpha by investing in its fund. There are multiple factors which can determine prospects of a sector such as industry tailwinds, growth outlook, business cycles, valuations of companies in the sector and their divergence from long-term averages, pricing power of companies in the sector, competitive intensity of the sector, margin profile of companies in the sector etc.
4. Thus, if one is a technocrat working in a particular sector, they may be well equipped to analyse it. Else one would have to do some hard work and identify a sector that is witnessing a good momentum or a positive turnaround in events such as margin recovery, demand revival, strong order flows etc.
5. However, most of the sectors are either shallow or deeply cyclically. Hence exiting them at the right time assumes paramount importance. Staying invested in a sectoral fund after the cycle turns adverse may not only lead to erosion of profits but also cause severe losses to the investors.
6. Thus, unless it is a niche sector which lacks exposure through other actively managed diversified equity mutual funds, the effort of investing in sectoral funds is hardly justified.
7. However, if one still wishes to invest in such a fund, they may restrict its exposure to upto 5% of their total investment in equity mutual funds as a thumb rule.

## Monthly Mantra

Money flows to the lifelong learners.

## Cartoon of the Month



## Good News!

- Indian Prime Minister Narendra Modi inaugurated the country's new Parliament building, which was constructed by Tata Projects Ltd. The triangular-shaped building has a built-up area of 64,500 square metres and features a grand constitutional hall to showcase India's democratic heritage, a lounge for MPs, a library, multiple committee rooms, dining areas and ample parking. The new Parliament building can comfortably seat 888 members in the Lok Sabha chamber and 300 in the Rajya Sabha chamber. In case of a joint sitting of both the Houses, a total of 1,280 members can be accommodated in the Lok Sabha chamber.
- India's defence production has crossed ₹1 lakh crore for the first time in FY23, a jump of more than 12 per cent over FY22. The exceptional performance showed consistent efforts of the Ministry of Defence (MoD) towards *aatmanirbharta* or self-reliance is paying off well for both public sector undertaking as well as private industry, believe ministry officials. The defence production value currently stands ₹1,06,800 crore and it will go further up once the data is received from the remaining private defence industries, said MoD. There is almost a 200 per cent increase in the number of defence licenses issued to industries in the last 7-8 years by the government. These measures have given a boost to the defence industrial manufacturing ecosystem in the country and generated tremendous employment opportunities, the ministry remarked.
- India's free trade agreements (FTA) will help generate surpluses and the country is "comfortable" for the next five-six years in its foreign exchange position, commerce and industry minister Piyush Goyal said. He said that the overall exports had been at \$500 billion for almost a decade but reached \$776 billion in FY23 with \$450 billion of merchandise exports and \$326 billion of services exports. "So we will be an economy which will be reporting surpluses in the years to come. And these free trade agreements will only accelerate that process, will help us generate surpluses, help us keep a strong economy," he said.
- Improved global-risk sentiment, encouraging corporate results, and positive macro indicators have led to the best buying in May by foreign portfolio investors (FPI) in nine months. This month, FPIs have been net buyers of equities worth Rs 37,317 crore, the highest since August last year.

## Top Personal Finance News – May 2023

1. RBI plans new payment system to safeguard essential payments against digital attack, natural calamities [Click here](#)
2. These 5 banks will offer QR Code-based Coin Vending Machines [Click here](#)
3. Digital Rupee: RBI plans to expand CBDC pilot to include more banks and locations [Click here](#)
4. Rs 2,000: PSBs see queues as pvt banks turn cautious [Click here](#)
5. Using prepaid forex cards? Still no clarity on 20% TCS [Click here](#)
6. India Post Payments Bank temporarily stops opening of this savings account: Check details [Click here](#)
7. Irdai forms task force to facilitate ease of doing KYC using Aadhaar for policyholders: What will be covered [Click here](#)
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12. Proposal for 5-day work week for banks: No banking on Saturdays if notified [Click here](#)
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14. Premature redemption of SGB: Check premature redemption price for Series I of Sovereign Gold Bonds 2018-19 [Click here](#)
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