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I-CAN FINANCIAL SOLUTIONS

NOVEMBER 2019

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MONTHLY NEWSLETTER – NOVEMBER 2019

Sensex : Up 3.8% **Nifty : Up 3.5%**	
Best performing sector: Auto (13%)	Worst performing sector: Telecom (-6.7%)
Best performing Global index: MerVal (20.4%)	Worst performing Global index: FTSE 100 (-2.2%)
Indian Rupee: -0.1%	Gold (International): 3.1%

Indian equities continued to rally for the second consecutive month after the blockbuster announcement of corporate tax reduction made by the Finance Minister. Sensex and Nifty rose by 3.8% and 3.5% respectively. The BSE Small Cap index rallied by 2.9%. The best return among the broad market segments was delivered by the BSE Mid Cap index – 5.4%.

Foreign institutional investors (FIIs) turned net buyers in both equity and bond markets last month, pumping in Rs 12,367.9 crore and Rs 3,669.6 respectively.

The benchmark 10-year government bond yield fell by 25 basis points to touch 6.45%. (One basis point is one-hundredth of a percentage point)

The Indian economy continued to show signs of a slowdown. Consumption demand has been weak. According to research firm Nielsen, rural household consumption has fallen to a 7-year low in the quarter ending September 2019. A report by PropTiger.com indicates that new real estate project launches in the major cities – Mumbai, Pune, Bengaluru, Chennai and Noida and others – continued to fall in the second quarter of the current financial year. As against the launch of 137,146 fresh units in the first six months of FY19, only 83,662 units were launched in India's top nine markets in the first six months of FY20 - a fall of 39%.

Owing to the weak consumer demand and stress in the financial sector several agencies have revised their 2019-20 Indian GDP growth estimates downwards.

FY20 GDP Growth (%)	Earlier projection	Revised projection
Fitch Ratings	6.6	5.5
RBI	6.9	6.1
World Bank	7.5	6
Moody's	6.2	5.8

In the backdrop of the economic slowdown and low inflation, RBI reduced the repo rate for the fifth time this year. The quantum of the rate reduction in October was 25 basis points – taking the repo rate to 5.15%.

Retail inflation based on the CPI index increased sharply to 3.99% in the month of September as food inflation almost doubled. This figure is very close to RBI's target rate of 4%. However, the wholesale inflation based on the WPI index, fell to a three-year low of 0.33% in September. This was mainly because of fuel and manufactured goods.

Factory output, measured by the Index of industrial production (IIP) fell to a 7-year low of -1.1% in August. The India Manufacturing Purchasing Managers' Index (PMI), which is an indicator of manufacturing output, fell from 51.4 in September to a two-year low of 50.6 in October. The Services PMI rose from 48.7 in September to 49.2 in October. (A PMI reading above 50 indicates expansion while a below-50 number indicates contraction in activity)

The BJP-Shiv Sena alliance won an absolute majority in the Maharashtra state elections. In the previous Assembly election in the state, the party had secured 47 lakh votes and 122 seats, and this time the number has come down to 41 lakh and 105 seats. In the Haryana state election, BJP emerged as the single largest party with 40 seats, but fell short by six seats to reach the halfway mark, leading to a hung Assembly. Most exit polls had predicted a comfortable victory for BJP. The Congress party demonstrated a better-than-expected performance in both the states. BJP formed a post-poll alliance with the Jannayak Janata Party (JJP) to form the government in Haryana.

Now that elections are out of the way, the government is likely to channelize more of its time towards reform initiatives.

The US Federal Reserve reduced interest rates by 0.25% to a target range of between 1.5% and 1.75%. This was the third cut this year. The central bank hinted at a pause in the rate cut cycle going forward.

India's rank in the World Bank's Ease of Doing Business 2020 Survey improved by 14 places to reach 63rd rank among 190 countries. It is also among the top 10 countries in terms of highest improvement. As per the independent brand valuation consultancy Brand Finance, India has jumped two places to rank 7 in its 2019 rankings after clocking a strong 19% growth in brand value to $2.6 trillion. However, India's performance in the World Economic Forum's Competitiveness Index deteriorated. India's rank fell by 10 places to 68th. This is because of poor performance on parameters like infrastructure, the adoption of information, communications and technology, financial markets etc compared to last year. Also some economies closely positioned to India (such as Colombia, Turkey etc) outperformed.

Reforms

- The government is considering introduction of e-way bill on the movement of gold to check evasion and tackle declining goods and services tax (GST) revenue collections.
- The Insurance Regulatory and Development Authority of India (IRDAI) issued a circular on advertisement regulations and restrictions which insurance companies will have to follow. Some of the rules mentioned are – the conditions need to be clearly specified wherever guaranteed returns are offered and the text spelling out the conditions should be at least 50% of the text describing the guaranteed returns; the asset mix in case of ULIPs should be disclosed half yearly and insurers cannot claim to hold a certain rank in the market.
- SEBI tightened norms in relation to sudden resignations of auditors of listed companies. It said that an auditor will have to provide review – limited or complete audit report – for the quarter during which he/she resigns.
- The government announced that starting 1st November'19 banks or system providers will not levy charges or merchant discount rate on customers and merchants on digital payments made to businesses with a turnover of more than Rs 50 crore.
- Prime Minister Narendra Modi wishes to take up a new mission – driving livestock production. This will be part of the game

plan to create a $ 5 trillion economy by 2024. Mr. Modi met various experts and veterinary scientists to launch three schemes. As per government estimates, livestock farmers will not only save losses to the tune of Rs 2.5 lakh core, but will end up earning four times.

- Now banks will be permitted to lend to Infrastructure Investment Funds or InvITs on the condition that these loans will be subject to greater scrutiny.

How Fixed Maturity Plans compare to Fixed Deposits

Bank fixed deposits are a very popular investment vehicle among Indians. Mutual fund companies offer a type of debt fund called Fixed Maturity Plans (FMP) which provide a good alternative. Let us take a look at the benefits of investing in an FMP.

An FMP is a close-ended fund, which means that investors can invest during the time when the fund opens for subscription. A mutual fund company comes up with a New Fund Offer (NFO) which has an opening date and a closing date. The investment has to be done only during those days. Once the money is invested, one can neither invest further or redeem the amount before maturity. The fund manager invests the pooled money in debt instruments which mature around the maturity date of the FMP. The instruments could include commercial papers (CPs), certificate of deposits (CDs), corporate bonds, money market instruments, government securities or fixed deposits. Unlike other open ended debt funds, this is a buy-and-hold portfolio. Hence, the expense ratio is also on the lower side which makes it a cheap investment product.

FMP vs. FD

	FMP	FD
Taxation	If the maturity period is less than 3 years, the interest is taxed as per the income slab of the individual If the maturity period is more than 3 years the gains are treated as capital gains and a long term capital gains tax rate of 20% is applicable along with indexation benefit.	Interest is added to the income of the investor. So income tax rate as per the income tax slab of the individual is applicable.
Return Assurance	Returns are indicative in nature – not guaranteed	A fixed interest rate is guaranteed by the bank
Liquidity	FMPs are listed on stock exchanges. However, the liquidity is low.	Can be prematurely closed. It could entail some penalty.

How does indexation benefit makes FMPs superior in terms of post-tax return?

Indexation benefit allows you to adjust the gains for the purpose of tax calculation in a way that inflation is taken into account. Hence you pay tax only on the returns generated over and above the inflation-adjusted initial investment amount. Triple indexation allows an investor to take advantage of indexing her investment to inflation for 4 years while remaining invested for a period of slightly more than three years. Hence we find a lot of people investing in 3-year FMPs around January to March period.

	FMP	FD	
Amount invested	1,00,000	1,00,000	
Annualised Returns (%)	7%	7%	
(A) Maturity amount at the end of 3 years	1,22,504	1,22,504	
Gains	22,504	22,504	
(B) Indexed cost (assuming 5% inflation)	1,15,763	NA	
Taxable Income (A-B)	6,742	22,504	
Tax Brackets	Tax Payable (Rs.)	Tax Bracket	Tax Payable (Rs.)
20%	1,348	5%	1,125
		20%	4,501
		30%	6,751

In the above example, for the individual in the 30% tax bracket the post-tax CAGR in case of FMP is 6.7% while for the FD is 4.9%.

Did you know?

1 in 3 children can use a tablet before they can speak, a survey found.

Cartoon of the Month

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