MONTHLY NEWSLETTER

JANUARY 2023

RESEARCH & RANKING™

WHAT'S INSIDE

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- A SEBI STUDY

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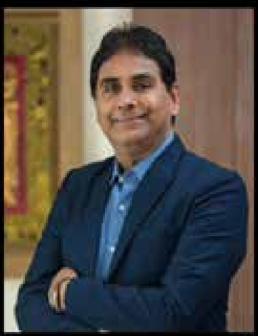
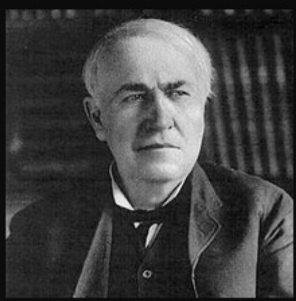
– A NEW PUSH TO GREEN ENERGY



Trading is injurious to your wealth. If you are smoking you may die in 20-30 years whereas by trading, this may happen the very next day

Vijay Kedia



I'd put my money on the sun and solar energy. What a source of power! I hope we dont't have to wait until oil and coal run out before we tackle that.

Thomas A. Edison

DECODING UNION BUDGET

WHAT CAUGHT OUR ATTENTION THIS MONTH

P&L ANALYSIS OF INDIVIDUAL TRADERS IN F&O SEGMENT - A SEBI STUDY

SEBI published a report on the 'Analysis of Profit and Loss (P&L) of Individual Traders dealing in Equity F&O Segment'. The study was done to understand the P&L of individual traders dealing in the F&O segment as last 3 years saw a great influx of new participants in these segments. A total of 45.2 Lakh individual traders across top 10 brokers were considered for this study which accounted for nearly 67% of the individual client level turnover in NSE Equity F&O in FY22.

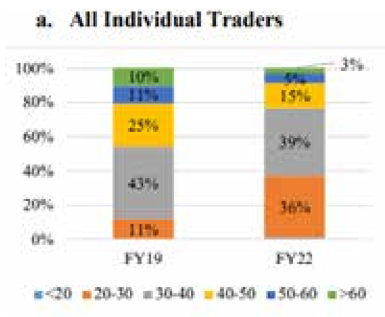
The period of FY19 and FY22 was considered to understand the trends across these product categories pre and post Covid-19. The data has been analysed across 4 main parameters namely – Product category (Index options, stock options, index futures, stock futures), Age, Gender, City (Tier1, Tier2, Tier3 and others). This study includes only the Individual clients/traders including HUF and NRIs. It excludes proprietary traders, institutions, partnership firms, etc.

Key Insights from this study

	All Individual Traders	
	FY19	FY22
Total number of individual traders (sample)	7,06,757	45,24,841
% of total	100%	100%
% of Loss makers during the year	85%	89%
% of Profit makers during the year	15%	11%

Multi-fold increase in Traders while loss makers keep increasing

There is a 6.5x increase in the number of individual traders across the top 10 brokers in India. Nifty had almost doubled from the 2020 lows and going into FY22, thus acting as a catalyst for more individuals to try their hand at trading. While the number of traders has seen a multi-fold increase, a huge majority of them have been loss makers in both FY19 and FY22. This is even though NIFTY has delivered positive returns in both these years.



Lower age groups who are inexperienced grab a bigger pie

Between FY19 and FY22, the percentage of traders in the age group of 20-30 years has increased from 11% to 36%. The flipside is that the percentage of traders in the age group above 40 years has shrunk considerably. This has led to the addition of inexperience in the overall pie.

	FY19				FY22			
Product Category	Total Client	% share	% of profit maker	% of loss maker	Total Client	% share	% of profit maker	% of loss maker
All Individual Traders								
Index Futures	1,66,272	12%	21%	79%	3,26,694	5%	26%	74%
Index Options	5,34,837	39%	17%	83%	42,43,473	61%	11%	89%
Stock Futures	2,51,863	18%	20%	80%	3,41,742	5%	33%	67%
Stock Options	4,26,828	31%	19%	81%	20,84,545	30%	18%	82%

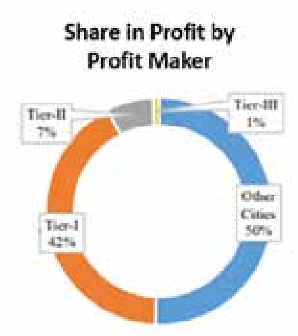
Options attracting all the action

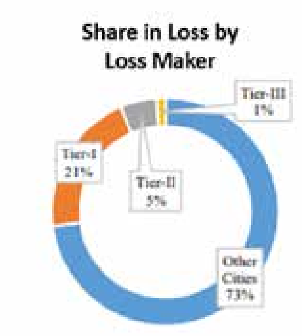
While there is a considerable increase in the number of traders across product categories, a clear shift is seen towards Options, with both Index and Stock Options together contributing 90% share of clients.

Unfortunately, percentage of profit makers for Individual Options traders is poor at 10-20% whereas for Futures traders it is relatively better at 25-35%. A possible explanation would be that given the higher capital required for Futures trading, there could be more experienced and higher age traders in this category. Nonetheless, in each of these categories, at least 2/3rd of the individual clients are making losses. While the Options product categories might be becoming popular, the percentage of loss makers across these categories have also increased. In index options, the percentage of loss makers has increased from 83% in FY19 to 89% in FY22.

Tier-I Cities have a higher share in Profits

Tier-I cities have a higher share in profit makers at 42% than in loss makers at 21%. This suggests that the quantum of profits made by Tier-I cities is much higher than any other cities, while share in Profits and Losses remain stable in Tier-II and Tier-III cities. The Tier-IV and below has a higher share in loss. This is also on the backdrop of percentage of traders from Tier-IV and below increasing from 69% in FY19 to 79% in FY22.





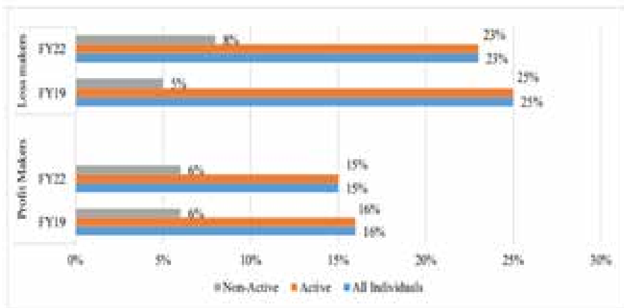
Product Category	Average P&L (Active Trimmed)					
	FY19	FY22	FY19	FY22	FY19	FY22
	All Individual Traders		Profit Makers		Loss Makers	
Index Futures	-25,748	-28,541	14,086	21,899	-34,050	-42,262
Index Options	-32,556	-39,553	13,689	11,450	-40,625	-43,975
Stock Futures	-86,342	-50,550	35,871	45,450	-1,07,494	-81,464
Stock Options	-33,515	-30,466	18,966	13,862	-43,503	-38,050

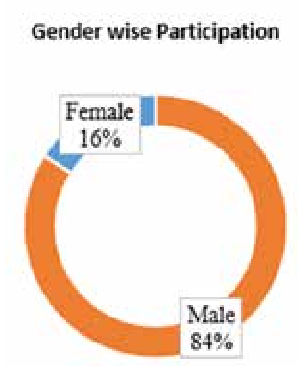
An average Individual Trader makes Losses

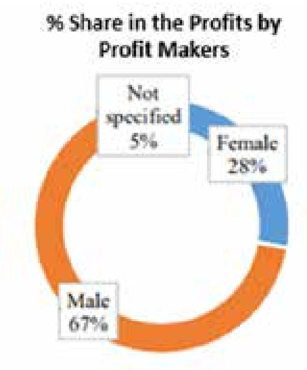
If the 5% outliers in both Profit and Loss makers are removed, on an average an Individual trader makes losses irrespective of the product category. Also, across all the product categories, on an average the loss makers are making more losses than the profit makers are making profit. Hence the quantum of profits made is much lower than the losses made.

Transaction costs add to the woes

Loss makers have incurred higher transaction costs than the profit makers. On an average the transaction costs have been 15-16% of the net trading profits for profit makers but 23-25% of the net trading losses for the loss makers. This is reflective of the fact that loss makers are prone to frequent trading or over trading than the profit makers.







Females have done better than males when it comes to profit making

While the participation rates in the F&O segment are skewed towards the males at 84% and females at just 16%, but when it comes to the percentage share in the profits by the profit maker the picture is completely different. 28% of the share in the profits are to the female traders. This is nearly double their participation rate in the F&O segment.

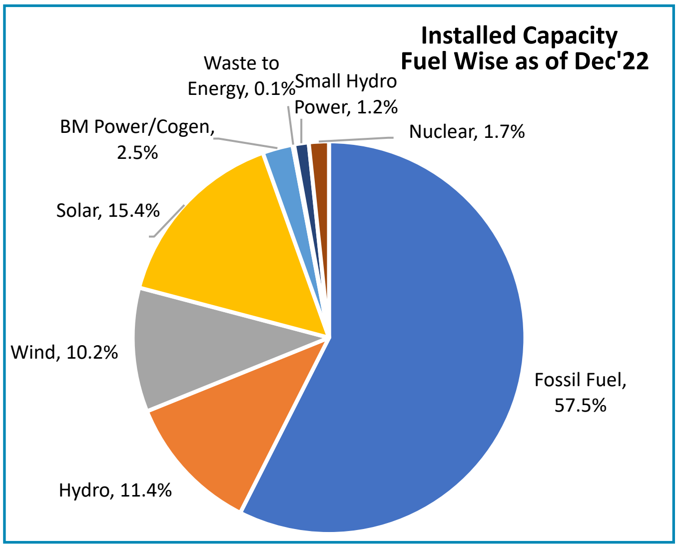
Conclusion

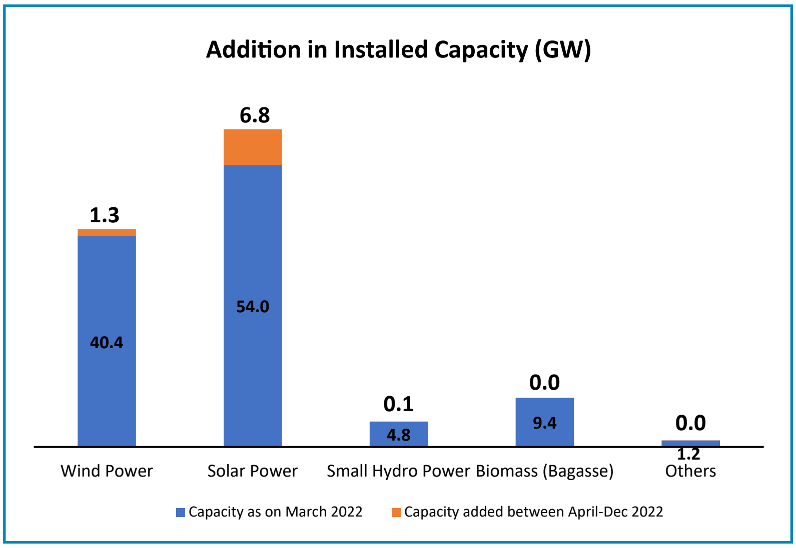
From the above study it can be concluded that the probability of making money in the F&O segment is abysmally low despite the market being in an uptrend. Up trending equity markets have led to much higher participation in F&O and consequently, of inexperienced individual traders, leading to an increase in loss makers share. The skew gets worse when we discover that that just the top 1% and top 5% active profit makers earned as much as 51% and 75% share of total profits earned respectively. Pertinent to note that F&O are short term, highly leveraged and extremely risky trading opportunities. Data has proven that money cannot be made by people at large by trading in such risky opportunities and it is advisable to follow an investing approach over the long term in the equity markets to create long term wealth.

GREEN GROWTH – A NEW PUSH TO GREEN ENERGY

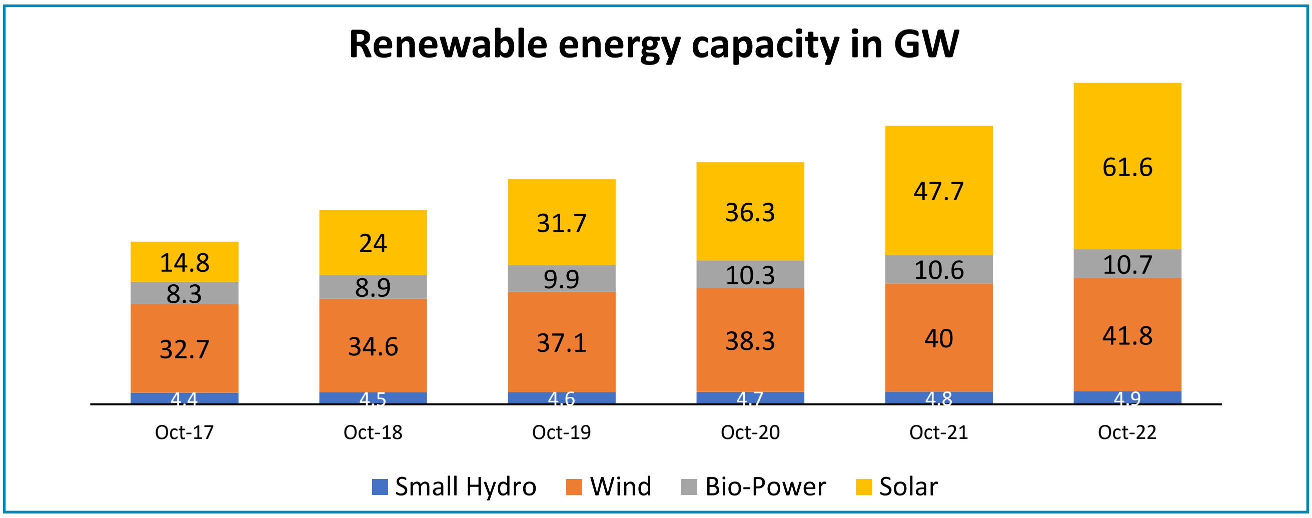
The finance minister listed 'Green Growth' as one of the seven priorities as India intends to move towards net zero carbon emissions by 2070, during the recent budget. The various measures for Green Growth include initiatives such as green fuel, green energy, green farming, green mobility, green buildings, and green equipment, etc. During the budget, An outlay of Rs. 35000 Cr. was announced towards energy transition, net zero objectives and energy security.

In line with this, the government had approved the National Green Hydrogen Mission with an initial outlay of Rs. 19,744 crores. The likely outcome of this mission is development of green hydrogen production capacity of at least 5 MMT per annum with an associated renewable energy capacity addition of about 125 GW by 2030. In terms of Green Energy, previously the government had showcased its intent to meet 50% of its electricity needs through renewable sources by 2030. As of 2021, India was ranked fourth in wind power, solar power and in terms of overall renewable power installed capacity. With India's growing population and enormous growth prospects, in the coming decade, India's energy needs are expected to grow at a faster pace than any other country.

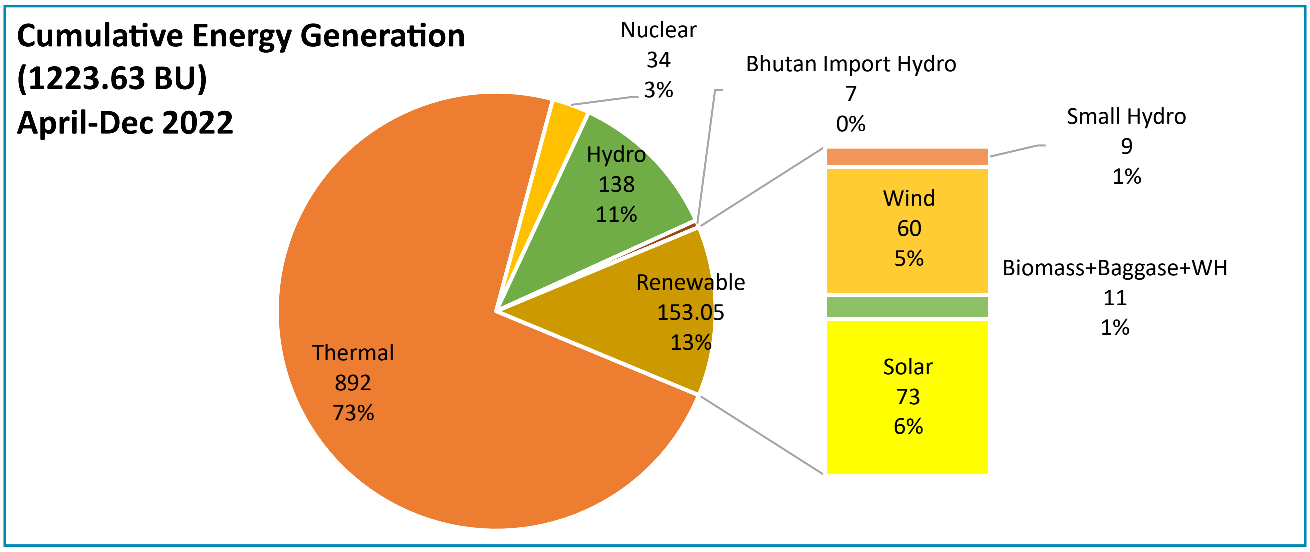




India in the last few years has consistently increased the share of renewable energy and as of December'22 it stands at nearly 40% of the installed capacity. The incremental capacity addition between April-December'22 is maximum in Solar power, followed by wind power. More than 50% of the renewable energy installed capacity is in the form of Solar and the next major capacity is in the form of wind power.



The highest capacity addition in the last 5 years has come in the form of solar power followed by wind power. Between Oct' 17 and Oct' 22 there has been a 4-fold increase in solar power capacities growing from 14.8 GW in Oct' 17 to 61.6 GW in Oct' 22. As compared to this, there is only 1.3x increase in the wind power capacities.

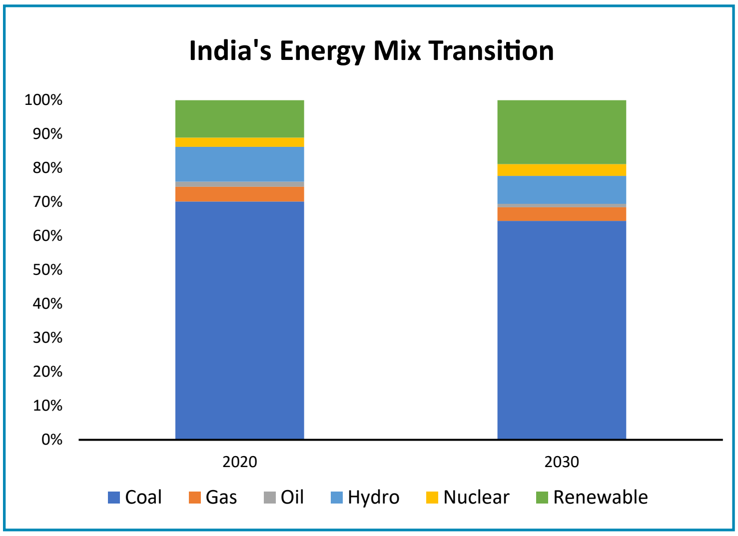


While the solar and wind power installed capacity stands are 15.4% and 10.2% of the total installed capacity in India, its contribution to energy generation stands at ~6% and ~5% for the period April-Dec'22 respectively. While this may be small as compared to other sources of energy still it has increased from the same period last year. The energy generated from Solar has now surpassed wind and the same is expected to continue as more capacities are added.

How is the Eco-system supporting this transition?

The move towards solar power is largely because of the decrease in the prices of solar PV module. In the last decade the prices have fallen by more than 90%. Currently, China hold ~84% market share in manufacturing of PV modules. To cut the imports of PV modules and incentivise the domestic production, in March 2021, the government announced 40% basic custom duty on solar module and 25% on solar cells. In the previous budget, the finance minister had allocated Rs. 19,500 Cr. in PLI incentives for local manufacturing of solar modules. Apart from this, the central and state government also provide various subsidies to institutional, residential, and social sectors.

For wind power the government has undertaken some policy measures such as concession on import duty on specified wind turbine components, 10-year income tax holiday for wind power generation projects, permitting foreign direct investment up to 100% under the automatic route, etc. These policies have given the much-required push towards wind power the benefits of which is expected to be seen in the higher additions to the installed capacity in the coming years.



Currently the per capita energy consumption is less than the world average and India has the highest projected power demand growth through 2050 thus increasing the importance of green energy. Renewables will underpin the net additions in energy generation in the coming years. While the government intends to meet 50% of the electricity requirement through renewable sources but according to S&P Global, 19% of the energy generation in India by 2030 would be from renewable sources. Whereas from fossil fuels it would come down from 70% in 2020 to 64% in 2030.

While going forward one of the themes to consider is this transition towards green energy. Energy access and energy security are also themes to consider as they are complementary to this green energy transition.

DECODING UNION BUDGET FY2023-24

Budget every year in India is a strong breeding ground for numerous thoughts and discussions across different economic strata where everyone holds an opinion right from the Aam Aadmi to corporate honchos. This year the noise around Budget was very high given it was the last full budget before the forthcoming general elections next year. Speculations were rife as it was being touted to be more pro-bono for electoral benefits. Layer it up with the world's focus on this budget as India remains one of very few stable nations in the presently weak macro-economic environment. Under these settings, the finance minister's (FM), Nirmala Sitharaman, budget outlined the pillars of India's journey towards becoming a developed nation by providing a strong impetus to growth and job creation along with lending macro-economic stability.

First Amrit Kaal Budget laid down the foundation stone for future growth via 7 priorities or Saptarishi's while highlighting few achievements made by India. 'How the world recognizes Indian economy as a bright spot among rest' and India's move from 10th to 5th largest economy in the world summarized India performance succinctly during the FM's speech. The budget struck the right chords with Green Growth theme as well in sync with India holding the G20 presidency this year.

SAPTARISHI

- 01 Inclusive Development
- 02 Reaching the Last Mile
- 03 Infrastructure and Investment
- 04 Unleashing the Potential
- 05 Green Growth
- 06 Amrit Peedhi – Youth Power
- 07 Financial Sector

Highlights of Budget: *Higher investments into infrastructure, continued emphasis on digitization and technology encouraging more start-ups, and simplifying new tax structure were the key highlights of Budget 2023.*

BUDGET 2023 DECODED IN FIGURES

₹10,00,000 cr	Capex
₹2,40,000 cr	Capital outlay towards Railway
₹79,000 cr	Allocation for PMAY Scheme
6.4% of GDP	Fiscal Deficit in FY23
₹10,000 cr	Outlay towards Urban Infra Development Fund
₹1,30,000 cr	Continuation of 50 year interest free loan to States linked to capex spending
₹19,700 cr	National Green Hydrogen
₹35,000 cr	Outlay towards Energy Transition
₹20,00,000 cr	Agricultural Credit Target (up by 11% from last year)
100	Number of Labs for 5G services-based applications

LIST OF ITEMS TO GET IMPACTED AFTER APRIL 1, 2023

CHEAPER

- Camera Lenses for phones
- Open cells of TV Panels
- Mobile Phones
- Lab-Grown Diamonds
- Shrimp Feed
- Machinery required for Lithium-ion batteries
- Denatured ethyl alcohol
- Crude glycerine
- Acid-Base Fluorspar

COSTLIER

- Cigarette
- Compound Rubber
- Articles made from Gold bars
- Naphtha
- Kitchen Electric Chimney
- Copper Scrap
- Fully Imported Luxury Cars and Electric Vehicles
- Imported bicycles and toys

TOP TAKEAWAYS FROM BUDGET

- **GREEN GROWTH:** One of the 7 key priorities of this budget, The Green Hydrogen Mission - targets to reach green hydrogen production of 5 MMT by 2030 and Green Credit Programme to incentivize sustainable actions. Other initiatives include setting up 10k bio-input resource centres to facilitate farmers to adopt natural farming, promotion of battery energy storage systems, coastal shipping for energy efficient transportation and allocation of funds for replacing old polluting vehicles.
- **TAX RATES:** In an effort to simplify personal income tax under the new tax regime income limit for rebate has been increased from the current income level of 5 lakhs to 7 lakhs, and the salaried class and pensioners are now eligible for the standard deduction and reduction in highest surcharge rate from 37%to 25%.This would result in reasonable tax savings.
- **AUTOMOBILES:** Auto ancillary companies and battery manufacturers to benefit positively from customs duty exemption on GST-paid compressed biogas units and on import of capital goods & machinery required for manufacturing of lithium-ion cells for batteries used in EV's. Additionally, viability gap funding for battery energy storage system projects with capacity of 4000 MWh will promote better EV infrastructure and will lead to improve penetration of EVs.
- **RAILWAYS:** Highest ever capital outlay was provided of Rs. 2.4 lakh cr. from Rs. 1.6 lakh cr. in FY23RE (Rs. 1.4 lakh cr in FY23BE) and 9x more than in the FY14 budget, depicting government's continued push towards capacity enhancement and modernization.
- **HOUSING:** Total allocation allotted for PM Awaas Yojana, the scheme targeted towards affordable housing, for FY23-24 is Rs. 79,000 crores, a 3% rise over FY23RE but a 66% increase over FY23BE. This will boost the housing finance companies and building materials and EPS industries.
- **HEALTH:** Healthcare sector allocation increased by meagre 12% while the industry was expecting a higher allocation. New program to promote research and innovation in pharmaceuticals through centres of excellence was announced to plug the gap towards need for continuous high-quality research. Establishment of nursing colleges will make quality care accessible and available to a wider population.
- **AGRICULTURE:** High focus was placed on Agricultural sector through multiple key announcements including increased Agriculture Credit target by ~9% to ~Rs 20 lakh crores, boost production of high value horticultural crops, building Digital Public Infrastructure in Agriculture to enable farmer-centric solutions, and setting up Agricultural accelerator fund which is expected to boost farm incomes and also encourage Agritech start-ups.
- **EMERGENCY CREDIT BOOST:** Extension of guarantee for MSMEs with a further infusion of INR 90 bn, which will enable credit guarantee for collateral free loans of INR 2 trn at 1% lower rate to strong benefit MSME sector and mid-sized banks, NBFCs and Fintechs focussed on MSME lending.
- **DEFENCE:** Defence capex at INR 1.6 trn in FY23BE (+7% over FY23BE). Catalyst would be Make in India projects.
- **TAX ON MARKET LINKED DEBENTURES:** Income from market linked debentures is proposed to be taxed at short term rates compared to current long term rates and is negative for NBFCs who borrow short term money.
- **DIGITAL INITIATIVES:** Digital focus remained high on agenda where excellence centres to be set-up for Artificial Intelligence (AI) for enhanced solutions, proposal to build 100 labs for 5G services-based application development, upskilling through new age courses and setting-up up of Digital Library

ON A LIGHTER NOTE- HILARIOUS REACTION TO BUDGET ON SOCIAL MEDIA

WHAT CAUGHT OUR ATTENTION THIS MONTH !

Industrial production expands at 5-month high to 7.1 % in Nov: Govt data

India's industrial output bounced back to rise 7.1% in November 2022, after contraction of 4.2% in October 2022.

As per the IIP data released by the National Statistical Office (NSO), the manufacturing sector's output grew by 6.1% in November 2022.

Production grew for all six sub-sectors when categorised by end-use, for the first time since June 2022, compared to just two sectors in October.

India's appetite for Russian crude oil lifts Jan inflows to record high

India's demand for Russian crude oil in January increased to unseen levels, continuing to remain above traditional middle-eastern suppliers for the fourth month in a row.

According to energy cargo tracker Vortexa, Russia's share in India's imports increased to 1.27 million barrels per day in January, taking up 28% of the market share from less than 1% before the start of the Russia-Ukraine conflict.

India, the world's third-largest crude importer after China and US, has been snapping Russian oil that was available at a discount.

RBI raises repo rate by 25 bps to 6.50%

RBI raised 25 basis points in its last policy review of the fiscal year (FY23) amid moderating inflation.

The MPC was of the view that further calibrated monetary policy action is warranted to keep inflation expectations anchored, break the persistence of core inflation and thereby strengthen the medium-term growth prospects.

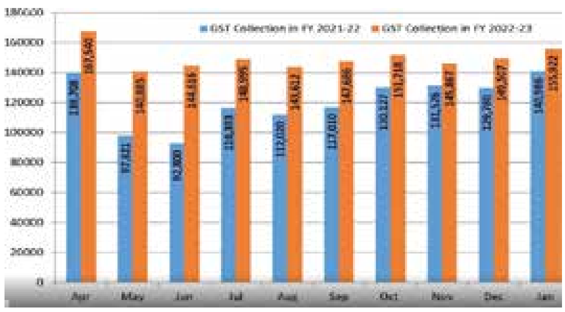
With this, the repo rate has been hiked for the sixth time in a row.

GST collection at ₹1.55 lakh cr in Jan, second highest-ever

The GST collection for January 2023 has reached over the ₹1.55 lakh cr mark for the third time this financial year, and is only second to the highest collection of ₹1.68 lakh crore in April 2022.

In comparison to the same period last year, the GST revenues for the current fiscal year up to January 2023 are 24% higher.

The Ministry credits this success to the various efforts made in the last year to broaden the tax base and improve compliance.



Indian stock markets shifts to T+1 settlement cycle from January 27

Indian stock markets embarked on a shorter settlement cycle or T+1 regime for the final list of large stocks from January, a change that will help reduce margin requirements for clients and encourage retail investment.

Market analysts believe that the T+1 settlement system will enable the cycle of money to move faster without waiting for an extra day.

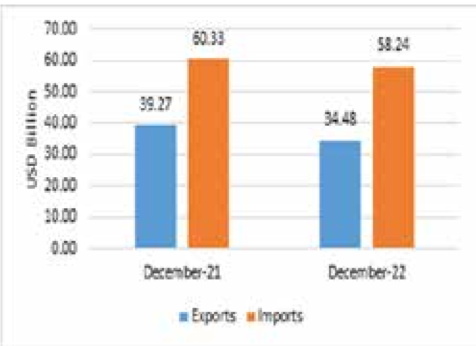
Globally, most stock exchanges in developed as well as emerging markets follow the T+2 settlement system.

India launches first-ever sovereign green bonds auction

RBI will auction 5-year and 10-year sovereign green bonds worth ₹4000 cr each on Jan 25 and Feb 9, the government's first-ever such debt sale to raise funds to finance clean project.

RBI held its first auction of Sovereign Green Bonds (SGrBs), with a total value of Rs 8,000 cr on 25 January.

The maiden sovereign green bond issuance worth ₹8,000 cr was fully subscribed, at a better- than-expected yield as local investors lapped up the bonds.



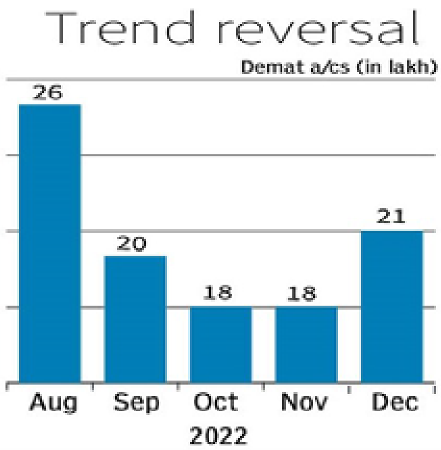
Exports decline by 12.2% to $34.48 billion in December, trade deficit widens to $23.76 billion

India's merchandise exports declined by 12.2% to $34.48 bn in December 2022, mainly due to global headwinds, and the trade deficit widened to $23.76 bn as per the government data

In December 2021, exports stood at USD 39.27 bn and the trade deficit was at USD 21.06 billion. During April-December of this fiscal, the country's overall exports rose 9% to $332.76 bn while imports increased 24.96% to $551.7 bn.

Commerce Secretary Sunil Barthwal said that despite global headwinds, India's exports have held its head high.

Demat accounts rise 34% to 10.8 crore in December on attractive returns from equity markets



The number of demat accounts surged to 10.8 cr in December 2022, a rise of 34% on yoy basis, due to attractive returns from the equity markets, the ease of the account opening process, and increased financial savings.

Also, the incremental account additions of such accounts were higher in December in comparison with the preceding three months but below the financial year 2021–22 average run rate of 29 lakh.

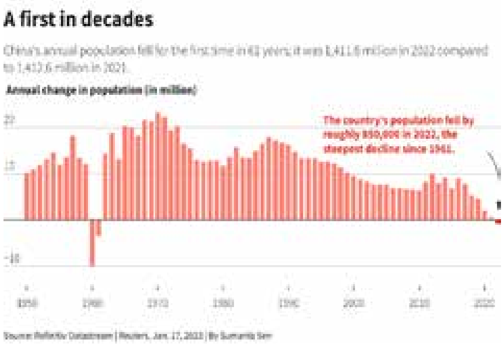
This drop is mainly due to volatility seen in 2023 on account of the Russia-Ukraine war, a high-interest rate environment and rising inflation.

Manufacturing PMI declines to three-month low of 55.4 in January

India's manufacturing industry started off on a weaker note to the year, growing at the slowest pace in three months in January as output and sales growth slackened.

S&P Global's Manufacturing Purchasing Managers' Index dropped from 57.8 in December'22 to 55.4 in January'23.

While the PMI moderated in Jan, there is a continuation of improved overall operating conditions for the 19th consecutive month- despite macroeconomic headwinds.



China records first population decline in 60 years

China's population shrank in 2022 for the first time in more than 60 years, marked a new turning point in the country's escalating demographic issue with significant implications for its slowing economy.

As per country's National Bureau of Statistics, the population fell by almost 850,000 people to 1.4 billion in 2022, the first dip since 1961, the last year of China's Great Famine.

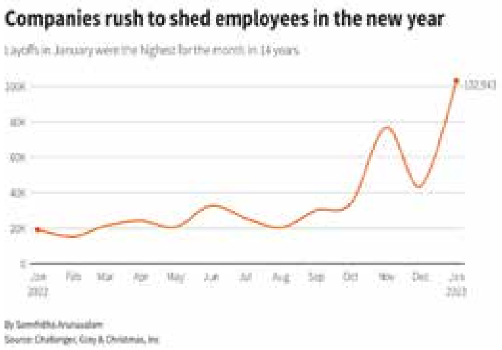
Demand is likely to slow down due to this demographic crisis chipping away at the overall GDP.

UN forecasts fall in global economic growth to 1.9% in 2023

The United Nations (U.N.) reduced its forecast for world economic growth to 1.9% for 2023 after previously projecting 3%, one of the lowest projections in recent decades.

The impact of the Covid-19 pandemic, excessive inflation and the food and energy crisis triggered by the conflict in Ukraine are the factors influencing the world economy to slow down.

The organization projects a rebound to 2.7% in 2024 if inflation gradually declines and economic headwinds begin to ease.



US layoffs hit two-year high in January as tech slashed thousands of jobs: Report

Layoffs in the US reached a more than two-year high in January as tech firms cut jobs to brace for a possible recession, as per the report.

As per the Challenger, Gray & Christmas Inc. report, 102,943 employees were affected by the layoffs, a more than two-fold increase from December and a more than five-fold increase from a year earlier.

Companies slashed thousands of jobs last month in a bid to ride out a demand slowdown as consumer and corporate spending decline due to high inflation and rising interest rates.

UK is the Only G7 Economy Predicted to shrink in 2023

Britain is expected to be the only major industrialised country to see its economy shrink this year after the impact of Liz Truss' brief premiership prompted a sharp growth downgrade from the IMF.

The UK economy is expected to contract by 0.6% this year - 0.9% points worse than it had pencilled in just three months ago and slower even than sanctions-hit Russia.

The IMF stated that while the prospects for every other member of the G7 group of leading developed nations had improved or remained unchanged since October, the picture for the UK had become more bleak due to rising interest rates and higher taxes.

THANK YOU

We would love to hear from you...

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