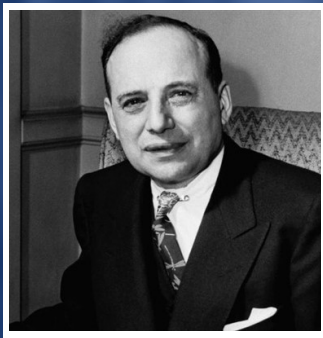


MONTHLY NEWSLETTER

JANUARY 2024



Benjamin Graham

American author, Investor,
Statesman

“The essence of investment management is the management of risk, not the management of returns.”



Vijay Kedia

Indian Investor

“Invest like a bull, sit like a bear and watch like an eagle.”
(mantra for long term investing).

WHAT'S INSIDE

- Escalating Red Sea Disruptions And Its Possible Impact On Indian Economy
- Mutual Funds Running Away With Bank Deposits
- Decoding Interim Budget FY2024-25
- What Caught Our Attention This Month

ESCALATING RED SEA DISRUPTIONS AND ITS POSSIBLE IMPACT ON INDIAN ECONOMY

RBI Governor Shaktikanta Das's commentary on the Red Sea attacks, **"Ongoing wars and conflicts and the emergence of new flashpoints in different parts of the world, with disruptions in the Red Sea being the latest in the series, impart uncertainty to the global macroeconomic outlook"** during the Monetary Policy Committee meeting announcements on February 8, 2024, highlights the escalating risk of the crises on global trade, including India.

Economic significance of the Red Sea:

- Strategic shipping route, the Red Sea is vital for 30% of global container traffic and 12% of global trade.
- Indian Companies use the Red Sea route through the Suez Canal to trade with Europe, North America, North Africa, and part of the Middle East.
- Rerouting affects 20-25% of India's total merchandise trade.
- ~80% of India's merchandise trade with Europe passes through the Red Sea.

Background

Red Sea attacks since late November 2023 were launched in response to Israel's war with Hamas. Airstrikes by the US and UK on rebel-held Yemen resulted in a sharp rise in tensions around the Red Sea, where Yemen's Iran-backed Houthi militants have been attacking ships in the strategic Bab el-Mandeb Strait connecting the Red Sea to the Arabian Sea. Houthis are a militant group that has been fighting the civil war in Yemen for a decade.

Impact of Red Sea Crises

Increasing attacks on ships since November 2023 have forced shippers to opt for alternative longer routes through Cape of Good Hope, stretching delivery time by 15-20 days and increasing the transit cost substantially because of incremental freight rates and insurance premiums. The shipping costs on several routes have increased considerably, such as Asia to Europe, where the rise is nearly five-fold. Business Standard reported "India may see around \$30 billion shaved off its total exports in the current fiscal year, as threats to cargo vessels in the Red Sea lead to a surge in container shipping rates and prompt exporters to hold back on shipments."

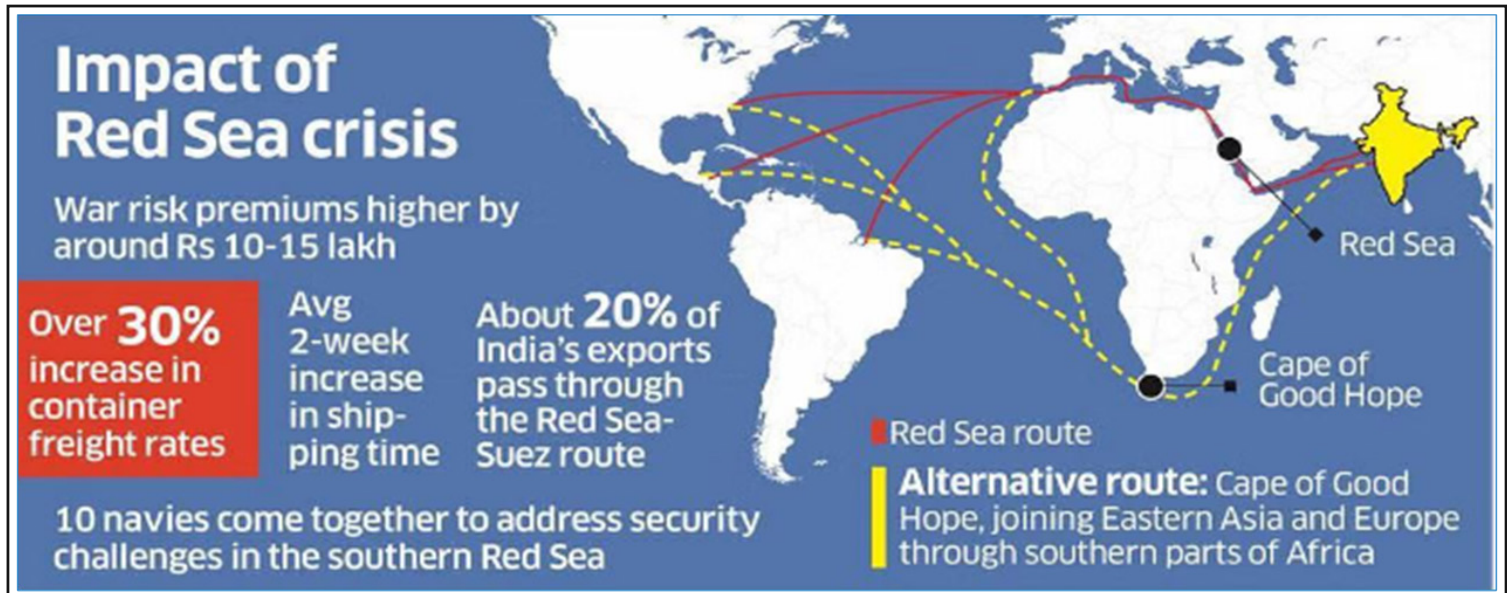


Source: S&P article, 'Conflict in the Red Sea disrupts commodities shipping', 26 Jan 2024.

"It is a very serious situation for exporters. For a 20-foot container to Europe, shipping costs have gone up to \$2,100-2500 from the previous \$500-600. In the case of the east coast of the US, shipping costs have doubled to \$3,100 from \$1,600. Another round of hikes is likely," says Arun Kumar Garodia, Chairman of the Engineering Export Promotion Council of India (EEPC).

Crisil Ratings mentions the impact of the Red Sea Crises is estimated to be differentiated across sectors.

- Maximum impact to be seen by companies operating in agriculture commodities and marine foods being perishable and their limited ability to absorb the risks from rising freight cost given their lean margin profile.
- Sectors like textiles, chemicals, and capital goods may not immediately impacted much, driven by their ability to pass on the higher costs. However, a prolonged crisis might impact working capital cycles.



Source: Civildaily.com

Few Indian companies have highlighted Red Sea concerns in their latest Q3FY24 results call.

“The company’s shipments were impacted by the red sea issue which led to deferment. The last 10 days faced issues with respect to the red sea. Containers could not be shipped leading to deferment of sales from Dec to Jan of 800MT. An impact of Rs 45cr of turnover this quarter.” – **CCL Products**

“Export challenges in the last 6-7 weeks is due to the Red Sea crisis which is pushing up freight costs and shipping times. Going forward, the company doesn’t expect any big external impact except the Red Sea crisis.” – **TCPL Packaging**

“Believes there could be some supply chain issues in the near term due to the Red-sea issue, the lead times have increased by ~2-4 weeks. Everything which the company had ordered is coming late.” – **Cummins**

“Closely monitoring the Red Sea area. Container prices and shipping times have jumped. Rs 20-25 cr. spilled over to the Q4 due to Red Sea Crisis.” – **Arvind Ltd.**

“Red Sea crisis has led to a spike in freight costs in the near-term for international sales. These challenges have resulted in a large increase in the freight cost and also availability of vessels due to much longer turnaround time on most of the global shipping routes.” - **KEC International**

“Logistics cost affected the sales because of the Red Sea issue. Management expects this to be over by the current quarter end or latest by April-end. There was volume (down 7% YoY) impact as freight cost jumped 7-8x.” - **Gravita**

Conclusion

Red Sea crises is disrupting global supply chains and its impact at present is largely limited to escalation in freight costs and delays due to longer routes. However, if the disruptions last longer and crises aggravates further, it might lead to higher energy prices, fuel inflationary concerns, and heighten supply chain issues further impacting overall economic growth.

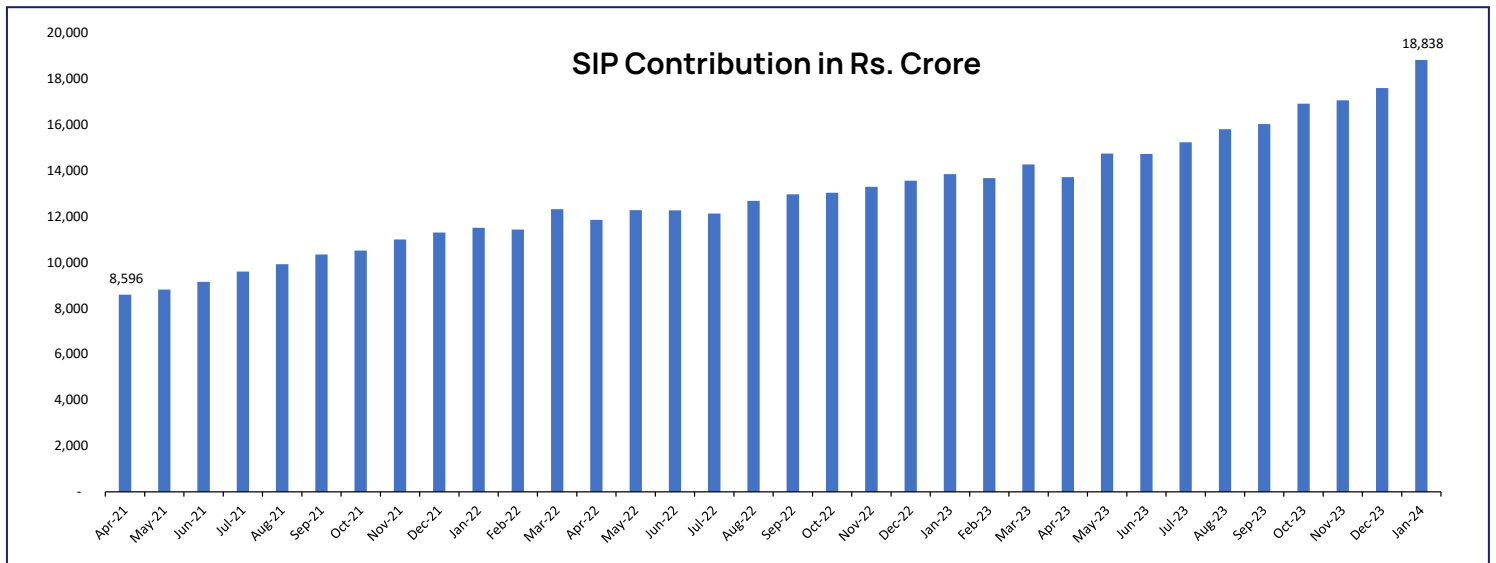
MUTUAL FUNDS RUNNING AWAY WITH BANK DEPOSITS

Over the past few years, a shift in depositor behavior has been seen. Earlier, fixed deposits were considered one of the primary ways to save money and invest. It gave interest rates that were higher or just at par with the inflation rate. Also, money in the savings account was not seen as a losing proposition. But with campaigns such as 'Mutual Fund Sahi Hai' from 'AMFI' and similar campaigns from intermediaries such as brokers and stock exchanges, the depositors were nudged to shift some of these savings to capital markets. And banks have felt the brunt of this change in trend. Many banks have reported difficulty improving their CASA (Current Account Savings Account) ratio and raising fresh deposits without increasing their interest rates. Public sector banks are already seeing some pressure on their net interest margins.

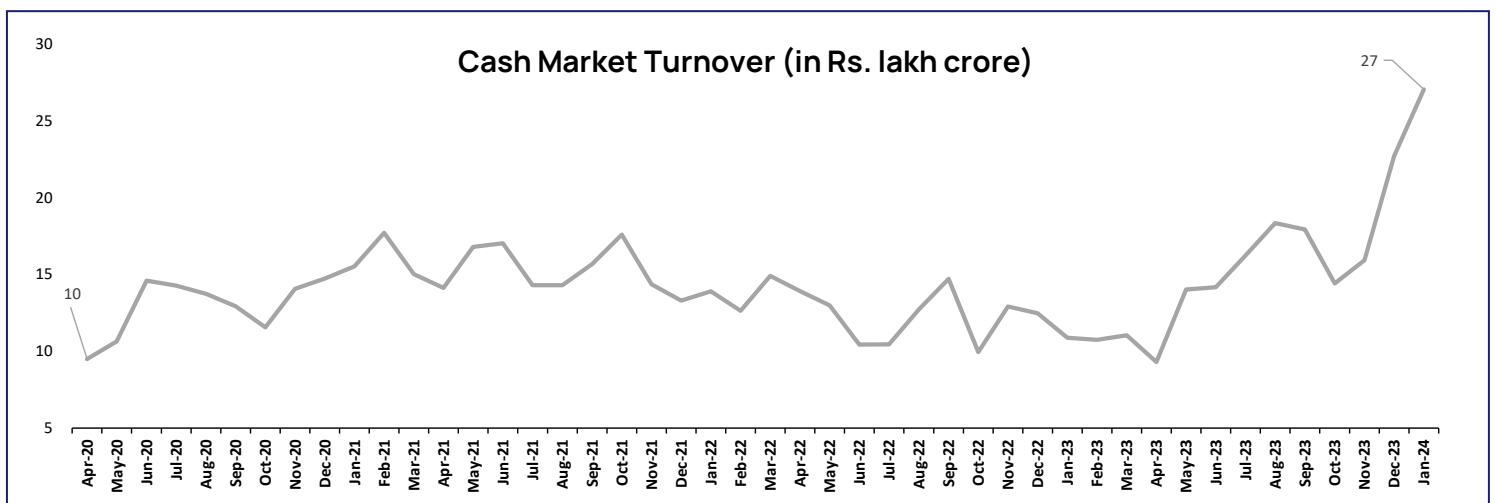
Recently, the banking secretary, Mr. Vivek Joshi, commented on the reason for the decline in deposits and CASA among banks. He said, "I think the reason for that may be that people are moving their savings from banks to maybe mutual funds, etc. So, that is the biggest challenge for the banks in the coming days or coming quarters, which I see."

Since April'21, the monthly SIP contribution in mutual funds has more than doubled from Rs. 8,596 Cr. in April'21 to Rs. 18,838 Cr. in Jan'23. In 2023 alone, Rs. 1.8 lakh crore inflows came in the form of SIPs. Much of these inflows in the past would have come to the banks in the form of deposits, but now they are flowing to the capital markets.

Even in direct investing in the stock market, we see a huge jump in demat accounts and cash market turnover. The number of demat accounts has more than tripled from 4 crores in FY20 to ~14 crores currently. A similar trend is seen in the monthly cash market turnover as well. It nearly tripled from ~Rs. 10 lakh crores in April'20 to ~Rs. 27 lakh crores in January '24.

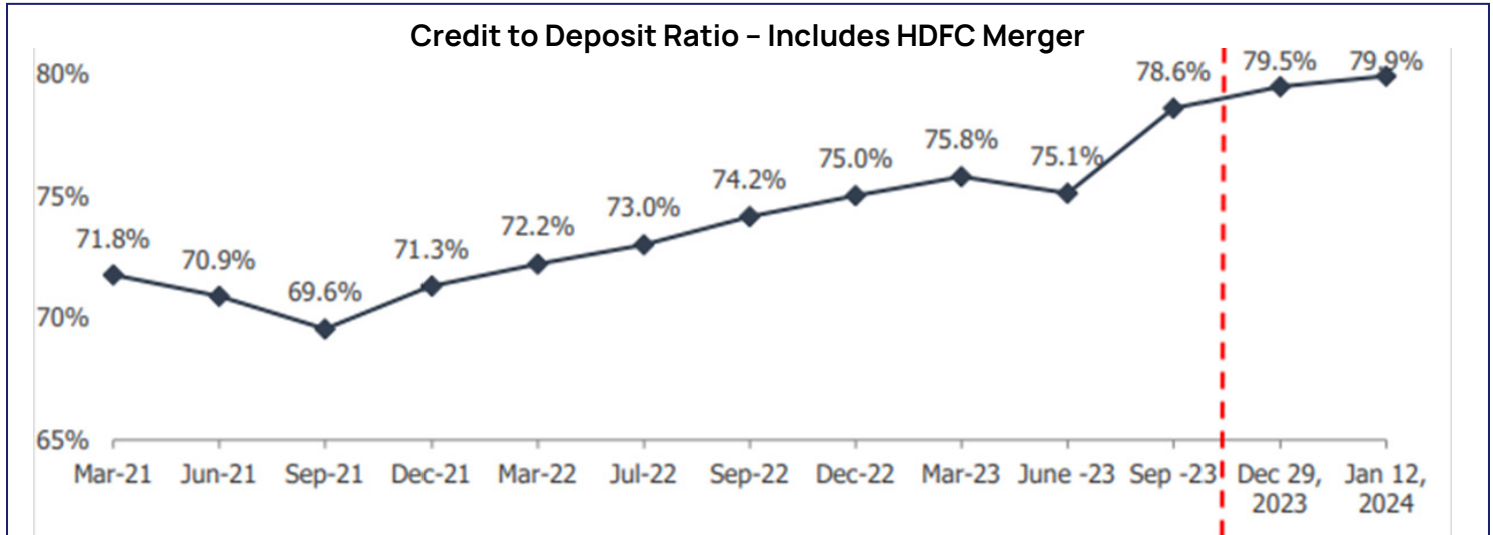


Source: AMFI, Equentis Research



Source: NSE, BSE, Equentis Research

While the recent performance of capital markets is not the sole reason for this shift, savings in bank deposits are also tax-inefficient. The depositors are taxed according to their tax brackets; for high-income depositors, it can be as high as 30%. So, for an FD with an interest rate of 7%, the effective interest rate post-tax is just 4.9%. Also, interest on FDs is charged annually, irrespective of when they mature. On the other hand, equity mutual funds have capital gains tax, which is fixed at 10% and 15% based on the investment duration. On the long-duration debt fund side, taxes must be paid based on tax bracket only on redemptions.



Source: CARE Ratings

The growth of deposits is directly related to the quantum of disbursement that banks can do and the credit growth they can maintain. If the banks are unable to grow their deposits, there is a squeeze on the C/D ratio (Credit/Deposit) as their advances continue to grow. As of 12th January 2024, at the system level, the credit and deposit growth stood at 16.1% and 12.4%, respectively (excluding the HDFC merger). This is resulting in a gap of 3.7% between the two. The CD ratio, excluding the HDFC merger, is 77.7%, up from ~75.1% a year ago. Including the HDFC merger, the CD ratio stands at 79.9%.

It will be a tall task for banks to improve their deposits growth without compromising on the margins. On the other hand, a structural story is playing out where the savings are increasingly being invested in capital markets through mutual funds or direct investing. Consolidation in the capital markets may help to divert some of the incremental investor's savings towards deposits. It will be interesting to see how different banks navigate this and balance the advances and credit growth while maintaining their margins and profitability.

DECODING INTERIM BUDGET FY2024-25

With the general elections scheduled in April-May, FM Nirmala Sitharaman presented India's interim budget. Contrary to popular opinion, this budget did not adopt populist measures. As guided in the 2021-22 budget, this year's budget remained in line with the path of fiscal consolidation and macroeconomic stability. FY24 fiscal deficit estimate was lowered to 5.8% from 5.9% budgeted earlier. For FY25, the fiscal deficit is expected to drop to 5.1% on account of slower growth in capex and sustained growth in tax and non-tax revenues. This aligns with the aim to reach a fiscal deficit of 4.5% in FY26. The budget outlined the need to empower the poor, women, youth, and farmers to realize India's potential. FM highlighted that unprecedented development is expected in the next five years, and these years will be foundational in realizing the dream of developed India by 2047.

During the speech, the FM outlined the vision for Viksit Bharat (Developed India): "Prosperous Bharat in harmony with nature, with modern infrastructure, and providing opportunities for all citizens and all regions to reach their potential." While this being an interim budget, the FM made various announcements related to fields such as railways, energy, housing, and healthcare.

FOCUS ON FOUR MAJOR AREAS

01

Garib Kalyan, Desh ka Kalyan

02

Welfare of Annadata

03

Empowering Amrit Peedhi,
the Yuva

04

Momentum for Nari Shakti

THREE PILLARS OF GROWTH

Governance | **D**evelopment | **P**erformance

INTERIM BUDGET 2024 DECODED IN FIGURES

₹11,11,111 cr	Capex (up 11.1% from last year)
5.1% of GDP	Fiscal Deficit in FY25
₹1,00,000 cr	Outlay towards scaling up of research and innovation in sunrise domains
₹10,000 cr	Outlay towards rooftop solarization
₹2,55,000 cr	Capital Outlay towards Railway (up by 6% from last year)
₹1,30,000 cr	Continuation of 50-year interest-free loan to States linked to capex spending

TOP TAKEAWAYS FROM BUDGET

- RAILWAYS:** The railways sector received significant attention with key announcements like converting 40,000 normal railway coaches to Vande Bharat standards, enhancing safety, and providing higher travel speeds for passengers. Additionally, emphasis on developing 3 major economic railway corridor programs – 1) Cement, Mineral, and Energy, 2) Port Connectivity, and 3) High Traffic Density Corridor. These programs are identified under PM Gati Shakti and will aid in improving efficiency in logistics, reducing costs, and boosting GDP growth.
- RENEWABLE ENERGY:** Under the rooftop solarization program, 1 crore households will be able to obtain up to 300 units of free electricity per month, resulting in annual savings of 15,000-18,000 for households and will further promote electric vehicle usage and entrepreneurship & employment opportunities in the solar ecosystem.
- DEFENSE:** Received the highest sectoral allocation this year, totalling Rs 6.2 lakh crore for FY25 (4.4% YoY increase). A new scheme will be introduced to strengthen deep-tech technologies for defense, aligning with the government's efforts to enhance self-reliance in defense.
- HOUSING:** Implementation of PM Awas Yojana (Grameen) continues, and the government is nearing its target of 3cr houses with an additional goal of 2cr more houses, which will be taken up in the next 5 years. The government will launch the "Housing for Middle Class" scheme to encourage middle-class individuals to purchase or construct their own homes.
- GREEN ENERGY:** The government's commitment to net-zero by 2070 was reinforced via some initiatives like coal gasification and liquefaction capacity of 100 MT (set up by 2030), viability gap funding for offshore wind energy up to 1GW capacity, and phased blending of biogas in fuel.
- HEALTHCARE:** Healthcare sector allocation saw a marginal increase of 1.7%, which was quite a bit less. Meanwhile, the Jan Aushadhi Scheme allocation rose significantly from Rs. 115 cr. in FY24 to Rs. 284 cr. in FY25. Some of the announcements in the healthcare sector include extending health coverage under the Ayushman Bharat scheme to include all ASHA, Anganwadi workers, and helpers, promoting cervical cancer vaccination for girls aged 9-14, and establishing more medical colleges by utilizing the existing facilities to make quality care accessible to a wider population.
- AUTO:** The budget focused on greater adoption of E-buses, strengthening the e-vehicle ecosystem backed by manufacturing and charging infrastructure. However, FAME subsidy expenditure for FY25 was reduced by ~44% to ~Rs. 26.7 bn from ~Rs 48 bn in FY24BE, primarily due to reduction in E-2W subsidy announced in May'23.
- AGRICULTURE:** For FY25, fertilizer subsidy was reduced by 15% to Rs. 1.64 lakh-cr over FY24RE. A strategy will be formulated to achieve 'Atmanirbharta' for oil seeds such as mustard, groundnut, sesame, soybean, and sunflower. Additionally, the Pradhan Mantri Matsya Sampada Yojana (PMMSY) will be stepped up to boost aquaculture productivity, exports, and generate employment opportunities.
- PLI SCHEME:** PLI schemes across various segments have seen a substantial increase. Some of them include White goods (AC and LED Lights), the allocation has quadrupled to Rs. 3 bn from Rs 650 mn FY24BE; for Large-Scale electronics, there has been a 36.4% YoY increase to Rs 61 bn, Auto PLI has been allocated Rs 35 bn, marking a sevenfold increase from FY24BE of Rs 4.8 bn and Pharma PLI budget estimates nearly doubled to Rs 21 bn in FY25 from Rs 12 bn in FY24BE.

WHAT CAUGHT OUR ATTENTION THIS MONTH!



Source: Financial Post

India's oil imports from Russia hit a 12-month low in January as sanctions bite

India's crude oil imports from its primary supplier, Russia, experienced a decline for the second consecutive month in Jan'24, marking the lowest level in a year due to tighter Western sanctions affecting the supply of light sweet Sokol grade, according to ship tracking data.

Russia supplied 1.2mn barrels per day of crude oil to India in Jan'24, down from 1.32mn barrels in Dec'23 and 1.62mn barrels in Nov'23, as per data from energy cargo tracker Vortexa.

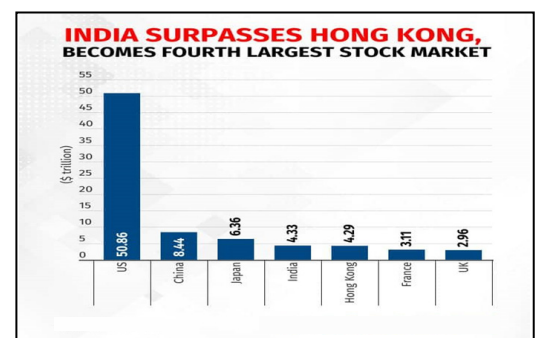
However, experts believe that India's long-term demand for Russian crude remains robust.

India overtakes Hong Kong as world's fourth-largest stock market

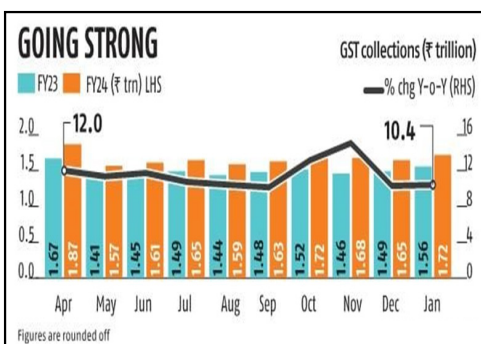
According to Bloomberg, India's stock market has surpassed Hong Kong's to become fourth-biggest equity market globally for the first time.

The combined value of shares listed on Indian exchanges reached \$4.33 trillion, versus \$4.29 trillion for Hong Kong, as per the data compiled by Bloomberg.

The surge in the Indian stock market is attributed to factors such as a rapidly expanding retail investor base, consistent inflows from FIIs, impressive corporate earnings, and resilient domestic macroeconomic fundamentals.



Source: Money Control



Source: Business Standard

GST collections rise to second highest ever at Rs. 1.72 Lakh Cr in Jan'24

In Jan'24, India's Goods and Services Tax (GST) revenue increased to 1,72,129 crore, marking growth of 10.4% YoY and 4.4% MoM.

This figure represents the second-highest monthly collection ever and the third instance in the FY 2023-24 where collections have exceeded 1.70 lakh crore.

Over the years, monthly GST collections have shown an upward trend. Initially averaging under Rs.1 lakh crore per month in its first year of 2017-18, collections experienced rapid growth following the pandemic-hit year of 2020-21 and ended averaging at Rs. 1.51 lakh crore in 2022-23.

RBI keeps repo rate unchanged for the sixth time in a row

RBI decided to keep the repo rate unchanged at 6.5% for the sixth consecutive time in a row. The decision was in-line with expectations of the economists.

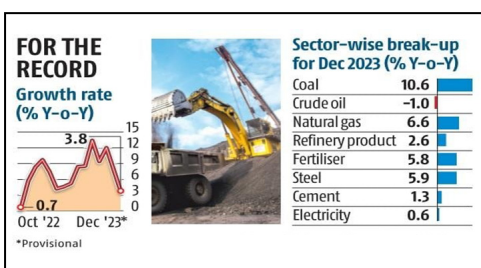
The decision to hold the key rates was attributed to robust domestic economic activity, increase in headline inflation, and decline in commodity prices.

On growth projections, the MPC has forecasted a 7% growth rate for the Indian economy in FY25.

RBI MPC's GDP FORECAST

	CURRENT FORECAST	PREVIOUS FORECAST
FY25	7%	---
Q1FY25	7.2%	6.7%
Q2FY25	6.8%	6.5%
Q3FY25	7%	6.4%
Q4FY25	6.9%	---

Source: The Economic Times



Source: Business Standard

Core sector growth at 3.8% in December '23. Records the lowest in 14 months

In Dec'23, India's core sectors rose 3.8% on an annual basis in Dec'23, down from 7.9% in Nov'23 and 8.3% in Dec'22, marking the lowest growth rate in 14 months.

The decline in core sector growth in December was primarily attributed to an unfavourable base effect and a slowdown in infrastructural activities.

Apart from crude oil, which fell by 1%, all seven other industries recorded a positive year-on-year growth.

FPIs investment in debt market marks a 6-year high in January, at Rs. 19,800 crore

In Jan'24, Foreign Portfolio Investors (FPIs) infused over Rs 19,800 crore in the country's debt market, marking the highest monthly inflow in over six years, driven by the inclusion of Indian government bonds in the JP Morgan Index.

It surpasses the previous highest inflow recorded in June 2017, when FPIs infused Rs. 25,685 crore. FPIs withdrew Rs 25,743 crore from Indian equities last month due to the surge in bond yields in the US.

The landmark inclusion is expected to benefit India by attracting approximately USD 20-40 billion over the next 18 to 24 months.



IMPORT DUTY CUT ON MOBILE COMPONENTS

Govt of India cuts import duty for components used in manufacture of mobile phones to 10% from 15% earlier

Source: CNBC TV18

Import duty on mobile phone components cut to 10% from 15%

In a bid to promote mobile phone manufacturing within India and align with the country's broader focus on exports, the government has reduced import duty on parts used for mobile phone manufacturing from 15% to 10%.

This adjustment applies to various components such as battery covers, main lenses, back covers, antennae, SIM sockets, and other plastic and metal mechanical items.

Additionally, India's mobile phone exports have been on the rise, doubling to \$11.1 billion in the fiscal year 2022-23 compared to the previous year.

Steel imports hit five-year high in April-December amid soaring demand

India's steel imports surged to a five-year high in the first nine months of the fiscal year ending in March, leading to the country becoming a net importer of finished steel, as per the provisional government data.

The rise in economic activity and the expansion of broader infrastructure projects have positioned India as a lucrative market for both, domestic and global, steel makers.

As per the data, India imported 5.6 million metric tons of finished steel between April and December, showing a growth of 26.4% YoY.



IEA'S 2030 PROJECTIONS FOR INDIAN OIL DEMAND & SUPPLY GROWTH

- Jet-kerosene demand is poised to grow strongly, at around **5.9%** per year on average
- Gasoline to grow by **0.7%** on average powered by rise in EVs
- Increased refining processing will lift crude oil imports further, to **5.8 mb/d**

New refining capacity is forecast to boost product supplies to global markets to **1.4 mb/d** through mid-decade before edging lower to **1.2 mb/d** by 2030

Source: International Energy Agency, Indian Oil Market outlook report

Indian car fleet size to rise more than **40%**

Source: Money Control

India to be the largest growth driver globally for oil demand through 2030 - IEA

Between 2023 and 2030, India is projected to emerge as the largest driver of global oil demand growth, narrowly surpassing China, according to the International Energy Agency (IEA). This will be fuelled by industrial expansion and increasing emergence of wealthier middle-class families interested on mobility and tourism.

India's oil demand is expected to increase from 5.48 million barrels per day in 2023 to 6.64 million barrels per day in 2030.

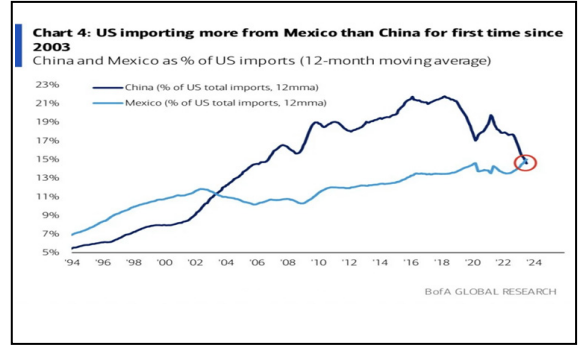
The country will post an increase of nearly 1.2 million barrels per day (mb/d), constituting over a third of the projected global gains of 3.2 million barrels per day, reaching 6.6 million barrels per day by 2030.

Global News Of This Month

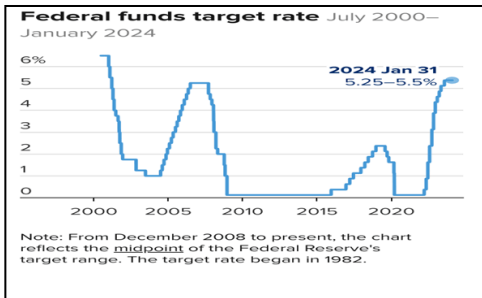
For the first time in 2 decades, Mexico overtakes China as the leading exporter to the US

For the first time in over 20 years, Mexico last year outpaced China as the primary source of goods imported to the United States. This change reflects growing tensions between Washington and Beijing, as well as US initiatives to diversify import sources.

Imports from Mexico to the United States saw an increase of 5% approximately from 2022 to 2023, totalling over \$475 billion, while Chinese imports dropped by 20% to \$427 billion during the same period.



Source: Reddit



Source: CNBC TV

Federal Reserve holds interest rates steady as consumer confidence improves and inflation slows

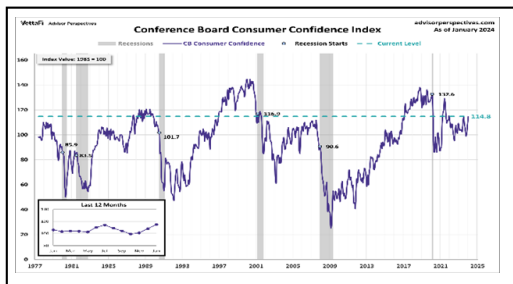
The Federal Reserve has opted to maintain interest rates at 5.25%-5.5%, unchanged for the fourth consecutive time amid improving consumer confidence and decreasing inflation rate.

The change in the Fed's stance comes as the economy is displaying unexpected resilience following a sequence of 11 rate hikes, which significantly tempered inflation, which surged to a four-decade high 18 months ago.

IMF predicts China to witness economic decline over next 4 years: Report

The International Monetary Fund forecasted that China's economic downturn will persist over the next four years as Beijing grapples with various challenges, such as an increasingly aging population, higher unemployment rates, and a property crisis.

According to the report, the IMF expects China's economic growth to decline to 4.6 percent this year, down from its 5.2 percent growth in 2023, with further drop to 3.4 percent by 2028.



Source: Advisorperspectives.com

US consumer confidence rises to hit two-year high mark in January

In Jan'24, U.S. consumer confidence surged to its highest level in two years amid easing inflation, positive employment conditions and expectations of Federal Reserve interest rates cuts.

The consumer confidence index climbed to 114.8 this month, marking its highest point since December 2021, from a downwardly revised 108.0 in December.

Euro zone economy stagnates as Germany struggles

The euro area's underperformance was primarily attributed to weakness in Germany, which has traditionally relied on affordable energy from Russia and robust bilateral trade with China, both disrupted by geopolitical factors.

In the last three months of 2023, Europe's largest economy contracted by 0.3%, while the bloc as a whole saw steady output, driven by expansions in Spain and Italy, according to the data. This period marked the sixth consecutive quarter of minimal or no growth.





THANK YOU

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