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CAPEX GOES SOCIAL

India's investment climate has benefited from the government's proactive approach and the growing investment momentum from the private sector

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The $1-Trillion AI Push
The government has chalked out an ambitious plan for making AI the next growth frontier and taking the Indian economy close to the $25 trillion goal by 2047 – Page 18

Sowing Self-sufficiency
India is actively cultivating a strategy to stimulate domestic demand, promoting self-reliance in the production of edible oils – Page 25

Frigid Fortunes
The refrigerant gases sector is on a rapid growth trajectory, driven by the surging demand for air conditioners - Page 35

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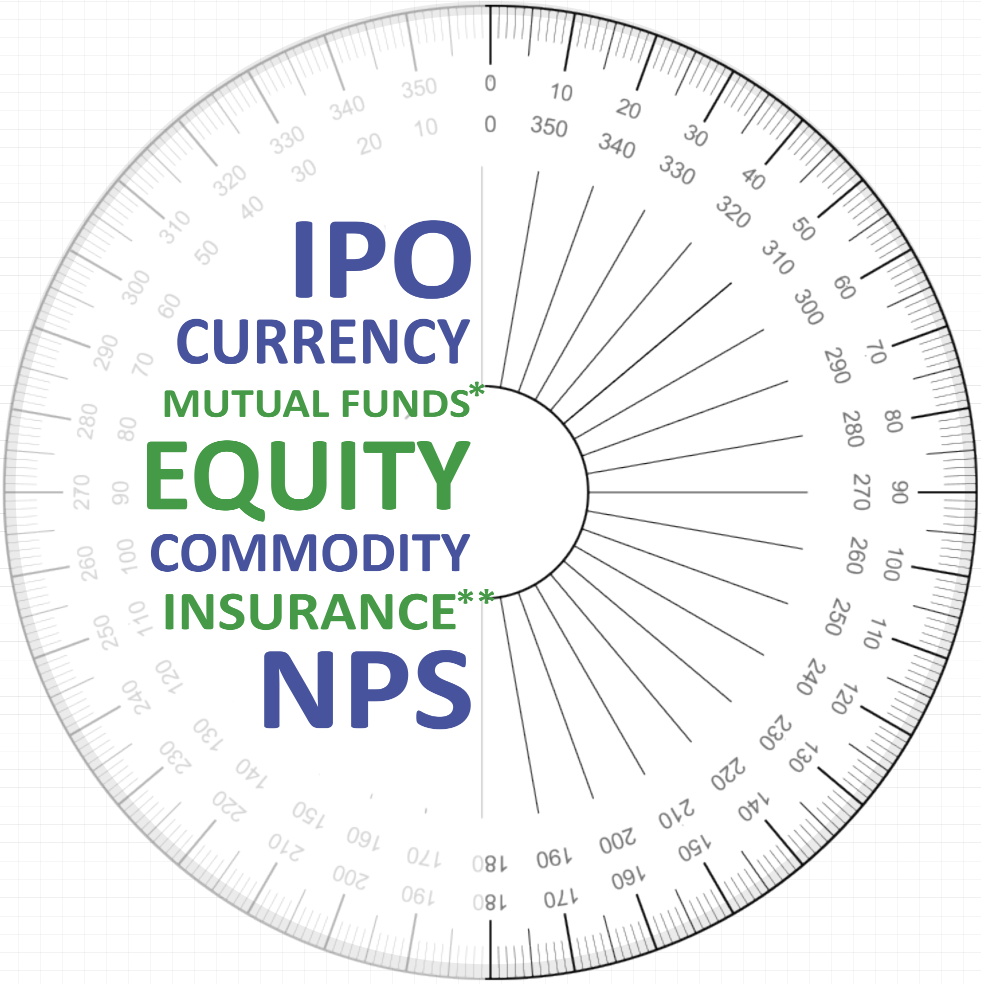

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CONTENTS

Volume 15 | Issue: 11, 16th - 30th November '23

Editor-in-Chief & Publisher: Rakesh Bhandari
Editor: Tushita Nigam
Senior Sub-Editor: Kiran V Uchil

Art Director: Sachin Kamble

Operations: Namrata Sabbani

Research Team: Sunil Jain, Vikas Salunkhe, Swati Hotkar, Nirav Chheda, Amit Bhuptani, Ayush Mehta, Ritu Poddar, Uma Gouda, Chaitali Salve

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Editor: Tushita Nigam

REGISTERED OFFICE
Nirmal Bang Financial Services Pvt Ltd
601/6th Floor, Khandelwal House, Poddar Road, Malad (East) Mumbai - 400097
Tel: 022 - 6273 9600

Web: www.nirmalbang.com | beyondmarket@nirmalbang.com
Tel No: 022 - 6273 8047

Tushita Nigam
Editor

UNCAPPING CAPEX

Capital expenditure leads to asset creation, enhancing efficiency and boosting production capabilities, ultimately driving growth and revenue flows. When assessing the infusion of capex into an economy, it serves as a key indicator of economic health.

In India's consumption-led economy, a huge uplift occurs when the government places emphasis on capital expenditure. This can be attributed to the creation of jobs, benefits extending over years, and heightened interest from both the public and private sectors.

Our cover story this issue has analyzed the impact of increased capital expenditure, not only from the government's coffers but also from the private sector. A recent study by Care, a ratings agency, highlights how India stands on robust footing, owing to improvements in the capital expenditure scenario.

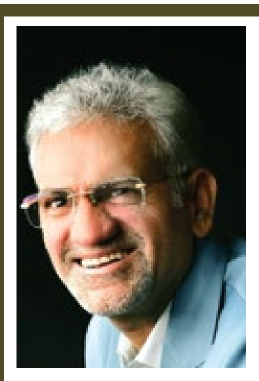
This edition also includes a plethora of interesting articles on the Indian economy, presenting favourable numbers that support its upward trajectory. It explores the growing artificial intelligence industry and its applications across various sectors. In another article, we discuss regulatory changes affecting non-banking financial companies, and examine what lies ahead for the financial sector. It also takes a closer look at the up-to-date figures, shedding light on the trajectory of India's fiscal deficit.

Readers will also find deeply insightful articles on sectors such as edible oil, cement, retail, and refrigerant gases in this issue.

Do not miss the feature in the Beyond Learning section, which focuses on no - cost EMIs and guides laymen on how to perceive them – whether as a gimmick, a financial burden, or a welcome relief in times of nee**D.**

"In the coming days, the Nifty Futures looks good, with support at 19,850."

Nifty Futures: 19,953
Last Traded Price As On 28th Nov '23



The prospect of a rate cut by the US Federal Reserve in June '24 has grown in the backdrop of the current economic scenario, particularly inflation data.

The retail demand in India for the just concluded festive season was reasonably good, showing signs of positivity in market sentiments.

In the coming days, the Nifty Futures looks good, with support at 19,850. On the upper side, it is likely to cross 20,400 and 21,000, thereafter.

Traders and investors should closely monitor the outcomes of the ongoing assembly elections in five Indian states – Mizoram, Madhya Pradesh, Chhattisgarh, Rajasthan and Telangana – as well as the Reserve Bank of India's (RBI's) monetary policy meeting for cues on the direction of interest rates. Both these events are likely to impact the Indian stock market, and must, therefore, be tracked with utmost attentioN.

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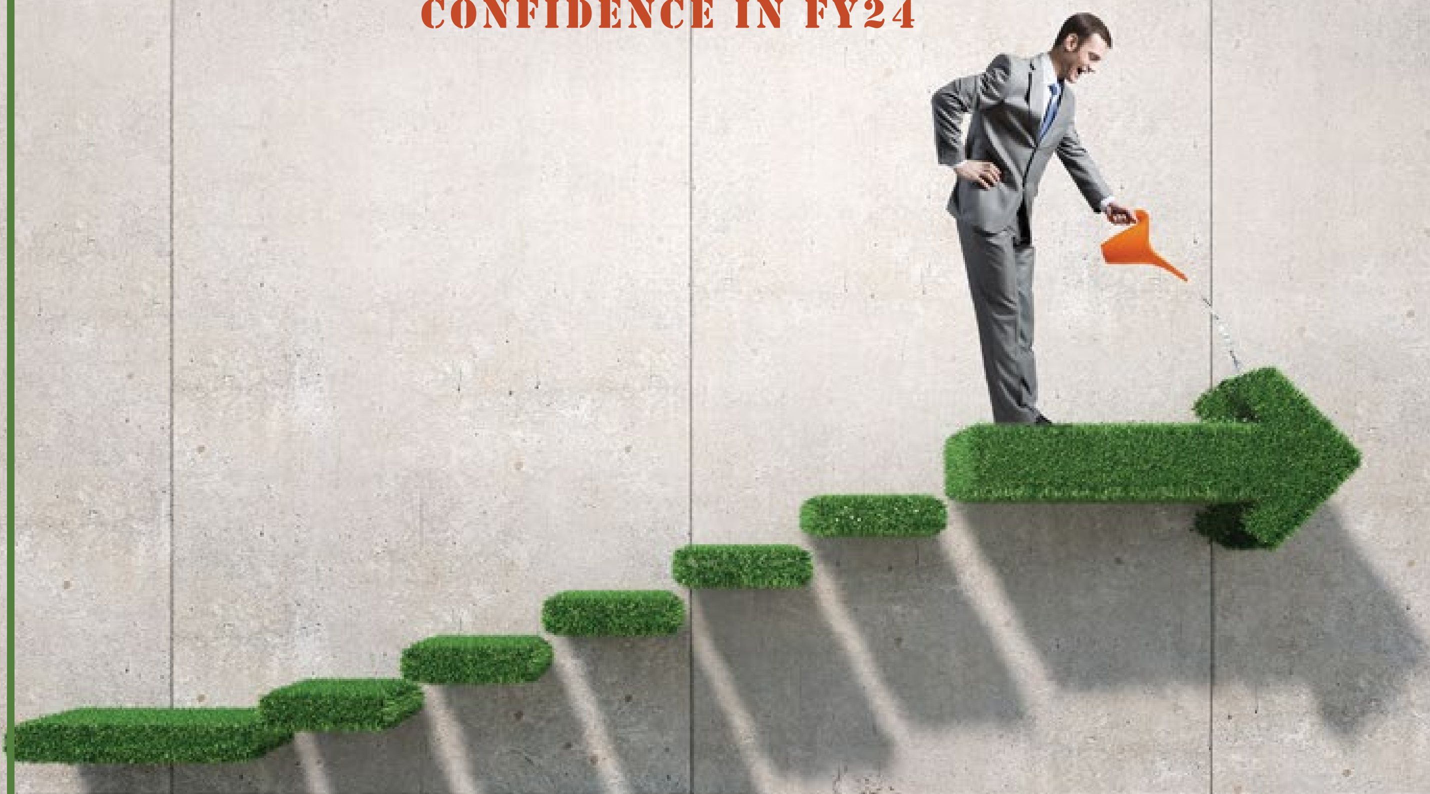
TURNING THE TIDE

INTERNATIONAL AGENCIES' PROJECTIONS OF HIGHER GDP GROWTH HAVE INSTILLED RENEWED CONFIDENCE IN FY24



The country's retail inflation moved southward to a four-month low of 4.87% in October as against 5.02% in the previous month of September.

Retail inflation or Consumer Price Index (CPI)-based inflation in October was below the Reserve Bank of India's upper tolerance band of 4% to 6% for a second consecutive month.

The Reserve Bank's Monetary Policy Committee (MPC) in its October meeting projected CPI inflation at 5.4% for 2023-24, down from the 6.7% in 2022-23.

The Reserve Bank of India (RBI) which is the country's central bank mainly factors in retail inflation while arriving at its bi-monthly monetary policy. It has kept its key lending rate (the repo rate) steady for a fourth consecutive policy meeting and has said that it remains focused on bringing inflation close to the target of 4%.

The repo rate presently stands at 6.50%. Repo rate is the rate at which the central bank of a country (in India, it is the Reserve Bank of India) lends money to commercial banks in the event of any shortfall of funds.

India's Factory Output Growth Declines in September

India's factory output growth declined to a three-month low of 5.8% in September this year from the double-digit 10.34% registered in the previous month of August. The slide has been attributed to slower activities in manufacturing, mining and electricity sectors.

While the growth in August was a 14-month high, factory output moved northward by 6.03 % in the previous month of July. The growth in the Index of Industrial Production (IIP) slid during September after two-months of expansion.

Last year in September '22, factory output growth stood at 3.3%.

"The growth rates over the corresponding period of the previous year are to be interpreted considering the unusual circumstances on account of Covid-19 pandemic since March '20," an official statement from the government said.

During September, India's manufacturing sector output, which has the highest weight in the Index of Industrial Production expanded by 4.5% as against 9.3% in the previous month (August '23).

Mining production increased 11.5% while electricity output jumped 9.9%; however, growth in both was slower than the 12.3% and 15.3%, respectively, in August this year.

The consumer durables segment showed improvement as its output moved up in September by 1% as against a 2.3% decline in the year-ago period.

The consumer non-durable goods output increased by 2.7% in September this year as compared to a 5.7% contraction in the year-ago period.

A point to be noted here is that the IIP expanded at a lesser rate of 6% in the April-September '23 period as compared to a 7.1% growth in the same period a year ago.

October GST Collection Stands at ₹ 1.72 lakh crore

The Goods and Services Tax (GST) revenue collection moved northward by a sharp 13.4% in October this year at ₹ 1.72 lakh crore, a 10-month high.

The 13.4% revenue growth marks the sharpest year-on-year (y-o-y) northward movement since December '22 and breaks a three-month run of deceleration.

The October GST receipts were 5.7% over that of the previous month (September) when growth had slid down to a 27-month low of 10.2%.

An important point that needs highlighting here is that the October figure is also the second-highest monthly tally.

There was a 13% increase in domestic transactions and services imports revenues in October while GST compensation cess collections, which include ₹ 1,294 crore levied on goods imports, hit a record high of ₹ 12,456 crore in October.

State GST revenue was up 12% between the April to October period this year with just two states reporting a negative growth - the two states being Manipur at -19% and Himachal Pradesh at -2%.

"The average gross monthly GST collection in FY24 now stands at ₹ 1.66 lakh crore and is 11% more than that in the same period in the previous financial year," the country's Finance Ministry said.

The October GST mop up, which stemmed largely from transactions in September got a healthy boost from festive spending as well as compliance deadlines and measures taken by authorities to curb evasion.

Anti-evasion drives and quarter-end adjustments combined with the momentum in the country's economy all resulted in the high collection in October.

Indians' Preference for `Made in India' Diwali Products to Hit Chinese Sales Very Hard

China could likely incur a massive loss of around ₹ 1 lakh crore in business this Diwali season as Indians have exhibited a strong preference for 'Made in India' products as against Chinese-made products, a report by news outlet ANI stated.

Indian made festival-related products have clocked tremendous sales, thereby benefiting a large number of Indian small-scale manufacturers, local traders and village artisans, including women entrepreneurs, among others.

The Confederation of All India Traders (CAIT)'s National President Mr BC Bhartia and Secretary General Mr Praveen Khandelwal, both have predicted a trade volume of around ₹ 50,000 crore on Dhanteras day considered auspicious for making new purchases and acquisitions, especially of metals.

"In previous years, Chinese products were occupying nearly 70% market of Diwali festivals.

However, this year the appeal of Prime Minister Narendra Modi to make this Diwali vocal for local has gone down well and widely accepted and implemented by both traders and consumers," said both officials of CAIT.

Here it must be mentioned that India has been surpassing China vis-à-vis trade volume in other sectors as well since some time now.

As per a report on global manufacturing trends by the Boston Consulting Group, India along with Mexico and South East Asia was rapidly emerging as a future export manufacturing powerhouse. It also enjoys a potentially enormous domestic market, it added.

On semi-conductor and material shipments, the BCG report said that these have surged by 143% while shipments from China have fallen by 29% during the same period.

A Deepavali Season Bonanza for Traders as Business Worth ₹ 3.75 lakh crore Clocked

It was a great Deepavali season for India's traders and retailers as they struck gold - clocking a record trade of ₹ 3.75 lakh crore with "almost only Indian products sold this Diwali," the Confederation of All India Traders (CAIT) said.

About 13% of the festival trade of ₹ 3.75 lakh crore comprised spending on food and grocery while 12% spending was on textiles and garments.

Providing more details, CAIT said that 9% spending was on jewellery, 8% on electronics and mobiles, 6% on cosmetics, 4% on dry fruits, sweets and namkeens and 3% on home décor, among others.

The wedding season that began from 23rd November is expected to generate business worth ₹ 4.5 lakh crore with around 35 lakh weddings likely to be solemnised during the period, CAIT said.

A point to be highlighted here is that the Delhi region alone is likely to witness around 3.5 lakh weddings, which, consequently would lead to around ₹ 1 lakh crore of business in the region.

The wedding season would prove to be a bonanza for businesses such as jewellery, sarees, garments, ready-made garments, furniture, footwear, ethnic wear, foodgrains, decoration items, electric and electronic equipment and banquets and hotels, CAIT pointed out.

IMF, UBS Up India's FY24 Growth Forecast

Leading global agencies have started raising their India GDP growth forecasts for FY24 as opposed to frequent downgrades earlier.

The International Monetary Fund (IMF) has now upped their India GDP growth forecasts for this fiscal (FY24).

The IMF has revised upward its FY24 GDP growth forecast for India for the second time in three months.

In its World Economic Outlook report released in October this year, it forecasted India's GDP growth at 6.3% for FY24, higher by 20 basis points (bps) than its late-July forecast.

The IMF had earlier upped its growth forecast for India by 20 bps to 6.1% in July.

A few other global majors such as Fitch Ratings, the World Bank (WB), Organisation for Economic Cooperation and Development (OECD) and the Asian Development Bank (ADB) have also marginally raised their GDP growth estimates for India.

The forecast is, however, lower than that of the Indian government and the Reserve Bank of India's estimates which peg the country's GDP growth rate for this fiscal at **6.5%.**

CAPEX GOES SOCIAL

India’s investment climate has benefited from the government's proactive approach and the growing investment momentum from the private sector

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apital expenditure (Capex) is a critical economic indicator that reflects the overall health of an economy. When there is a balance between government and private sector investments in an economy, it instills strong confidence in investors, both domestic and foreign.

In the wake of the pandemic, a pressing question for observers of the Indian economy is the extent to which Capex has recovered. This is important in gauging the sentiment around investments, both from the government and India Inc.

A study by ratings agency CARE sheds light on the notable improvements in the investment landscape, especially from the private sector. The insights and statistics from this report provide compelling evidence that India's economic outlook is robust and on solid ground.

PUBLIC SECTOR CAPEX

Government capital expenditure involves both the central and state governments in India, with the central government providing support to the states. Some important statistics show that public investment remains strong even after the pandemic:

• The share of capital expenditure in the total expenditure has undergone a substantial increase, rising from 12.1% in FY21 to 22.2% in the budget estimate for FY24.

• The central government's capital expenditure has exhibited a year-on-year (y-o-y) growth of 48.1% from April to August in FY24, with a spending of 37.3% of the budgeted value of Rs 10 trillion. This is higher than the spending of 34.6% of the budgeted value during the same period in FY23.

• Notably, major ministries and departments, such as the Ministry of Railways, Ministry of Road Transport and Highways of India (MoRTH), and Ministry of Communication have shown high utilization of their budgeted amounts. Their budgetary expenditure was above 40% until August '23.

STATE CAPEX

Here are a few important insights from the CARE study that will help understand the Capex structure in the Indian states:

• An analysis of the state budgets of 19 major Indian states paints a compelling picture. The total budgeted capex of these Indian states is expected to surge by 19.6% in FY24 compared to FY23. This remarkable growth in the budgeted capex is primarily driven by notable increases in states like Gujarat (95%), Chhattisgarh (81%), Karnataka (34%), Odisha (29%), and Jharkhand (28%).

• At the end of August '23, the collective utilization of budgeted capex by the 19 major states has risen to 25%, reflecting an improvement from the 20% recorded during the same period in FY23.

• Significantly, certain states stand out with robust capital expenditure utilization rates, including Andhra Pradesh (51%), Telangana (49%), and Madhya Pradesh (42%). In contrast, some states, like Maharashtra (15%), Karnataka (12%), and Punjab (12%), continue to exhibit low utilization rates. This sluggish pace of capex implementation, particularly in states with relatively higher per capita incomes, remains a cause for concern.

The central government also extends interest-free loans to Indian states through the 'Special Assistance to States for Capital Investment' scheme. Under this programme, the central government provides state governments with interest-free loans for capital expenditure, spread over a 50-year period.

For FY24, the central government aims to allocate a total sum of up to ₹ 1.3 trillion.

Of this ₹ 1.3 trillion (₹ 1.3 lakh crore), ₹ 300 billion (₹ 30,000 crore) is conditional and will be disbursed based on states meeting specific requirements, while ₹ 1 trillion (₹ 1 lakh crore) is untied, to be distributed in proportion to each state's share. In the first half of the current fiscal year, ₹ 54,600 crore has already been disbursed under this scheme to West Bengal, Rajasthan, Odisha, and Tamil Nadu, with these states being the top recipients of the funds.

From these facts, it is amply clear that despite the challenges posed by the pandemic, public sector investments have remained robust and unabated. This is a positive development that has encouraged analysts, economists, and other experts. It reflects the government's proactive role in fostering a positive investment climate, which in turn boosts investor confidence.

PRIVATE CAPEX

Now, let's delve into the most crucial aspect of this topic: Have private investments picked up? The answer is a resounding yes. CARE conducted a comprehensive analysis of the annual financial statements of 1,299 non-financial companies. The study revealed several key statistics that underscore this trend:

• Non-financial firms exhibited a remarkable capital expenditure growth of 36.5% year-over-year (y-o-y) in FY23, a significant increase from the 22.6% y-o-y growth recorded in FY22.

• For the first time since the pandemic, Indian non-financial firms' aggregate capex in 2023 exceeded pre-pandemic levels, with a notable increase of 3.3% over the 2019 baseline.

• The top five sectors that exhibited high capital expenditure growth were crude oil (12%), power (10%), telecom (10%), iron and steel (9%), and retailing (9%). Among the major sectors, iron and steel and retailing experienced the most robust growth. Prominent players in these sectors undertaking substantial capital investments include Reliance Industries, Oil and Natural Gas Corporation (ONGC), Bharti Airtel, NTPC, Tata Motors, Vodafone Idea, Indian Oil Corporation (IOCL), and Vedanta.

• Major Central Public Sector Enterprises (CPSEs) with a capital expenditure target exceeding ₹ 100 crore successfully achieved their FY23 target, investing ₹ 6.48 trillion (₹ 6.48 lakh crore) against the budgeted capex of ₹ 6.46 trillion (₹ 6.46 lakh crore).

• In the ongoing fiscal year from April to August, major CPSEs have realized a capital expenditure of ₹ 3.1 trillion, representing 42.3% of the budgeted allocation of ₹ 7.3 trillion (₹ 7.3 lakh crore), marking a remarkable 36.6% growth on a y-o-y basis.

• Data from the Reserve Bank of India's Order Books, Inventories, and Capacity Utilization Survey (OBICUS) reveals that capacity utilization in the manufacturing sector has risen to 76.3% in the March '23 quarter, an increase of 2% from the previous quarter of FY23. This upward trend is primarily attributed to a sequential increase in new orders.

ON THE WHOLE

The CARE study highlights that while India's private capex cycle has demonstrated early signs of a rebound, the medium-term outlook remains positive. It emphasizes, "With capacity utilization rising above 75%, coupled with a deleveraged balance sheet, we could expect the private investment cycle to accelerate. First quarter data shows improving profitability driven by the easing of input prices. The improvement in corporates' profitability will aid private capex cycle revival."

The report underscores that the key takeaway from private sector investments is that India Inc's investment trajectory showed good recovery in FY23, with total capex surpassing pre-pandemic level for the first time.

The report acknowledges, "Even though there are downside risks to domestic as well as external demand and higher cost of money which can lead to firms postponing their capex plans, the conditions continue to remain suitable for a strong uptick in private capex with improvement in capacity utilisation levels and a deleveraged balance sheet."

According to media reports, the government has crossed 50% of its budgeted target for capital expenditure. This amounts to ₹ 5 lakh crore in the present fiscal.

This shows that the government has been proactive in sustaining the mood of the investment climate in India. Even private sector's investments have shown the required momentum. This has brightened the prospects of strong Gross Domestic Product (GDP) growth in FY24.

In an interaction with the media, India's Chief Economic Advisor (CEA) Anantha Nageswaran, said that private sector capital formation, supported by the government's capex push, has already taken off with investment intentions coming back in a big way.

Nageswaran added, "India's real GDP growth towers above many other countries' estimates. These numbers are on a slow and steady upward trend. A slowdown in the global economy and trade may moderate export growth, but overall, it may be better for us." This means that India's growth story continues to remain relevant even after the pandemic challengeS.

TRANSFORMING INDIA'S FINANCIAL LANDSCAPE

THE CLASSIFICATION OF NBFCs AND THE IMPLEMENTATION OF STRICTER REGULATIONS WILL HAVE A GREAT IMPACT ON INDIA'S FINANCIAL FUTURE

India's central bank, the Reserve Bank of India (RBI), has recently tightened the regulatory requirements for numerous large Non-Banking Financial Companies (NBFCs), including some prominent players. This move is part of the central bank's broader initiative to strengthen the regulatory framework governing NBFCs, recognizing their key role in India's financial sector.

The growth of NBFCs can be attributed to the rising demand for credit in the Indian economy. In recent years, traditional banks have shown sluggish credit growth, resulting in a credit gap. NBFCs have stepped in to fill this void by catering to the financial needs of small and medium-sized enterprises that have historically been underserved by traditional banks.

Unlike traditional banks, NBFCs provide a diverse range of financial services, including loans, advances, and asset finance. They have played a substantial role in driving India's economic growth by focusing on addressing the financial needs of small and medium-sized businesses, entrepreneurs, farmers, and individuals who lack access to traditional banking services.

NBFCs have extended their services to Tier-2, Tier-3, and Tier-4 markets, offering loans to clients through various touchpoints to create a seamless channel experience. Round-the-clock sales and service complement the sector's multi-channel capabilities.

One of the biggest advantages of borrowing from NBFCs is their flexibility in lending practices. In contrast to banks, which have rigid lending guidelines, NBFCs can tailor their lending approaches to meet the specific needs of their clients. This adaptability renders them an attractive choice for individuals seeking more personalized financial services.

NBFCs also offer the advantage of expedited loan approval. In contrast to banks, which often have protracted approval processes, NBFCs can swiftly authorize loans due to their streamlined decision-making and reduced bureaucracy.

Their significance in India has been on the rise, primarily driven by their adept use of technology to reach a broader audience. Many NBFCs have introduced digital platforms that enable customers to apply for loans online, significantly enhancing the speed and convenience of the process. This technological leap has attracted a younger, tech-savvy customer base.

The expansion of NBFCs has led to collaborations with numerous alternative lenders and commercial banks operating through digital platforms. These adaptations have resulted in a significant expansion of their intended customer base.

Also, the trend of consolidation has proven beneficial for the sector. The recent upsurge in mergers and acquisitions within this industry has been led by larger NBFCs seeking to broaden their reach, and smaller ones aiming to expand their operations.

Keeping the sector's growth in mind, the central bank has established a strong regulatory framework carefully designed to ensure thorough oversight of NBFCs, focusing on ensuring their stability, transparency, and reliability.

This framework demonstrates the RBI's commitment to cultivating a secure and accountable financial environment. The RBI diligently monitors and assesses the operations of these NBFCs through regular assessments and audits to verify their compliance with regulatory standards.

This heightened regulatory attention is in response to a significant surge in bank credit over the past few months during the current financial year. Gross bank credit offtake has increased by 19.8%

year-on-year (y-o-y), and the growth has been led by NBFCs, as indicated by the latest CareEdge Ratings report. A substantial portion of this lending is carried out by Fintech companies, which cater to customer segments typically underserved by traditional financial institutions.

The RBI has categorized NBFCs into different layers based on size and operations. These layers include the Base Layer (NBFC-BL), Middle Layer (NBFC-ML), Upper Layer (NBFC-UL), and Top Layer (NBFC-TL). The RBI employs a prescribed methodology to classify NBFCs into the Upper Layer based on their asset size and scoring methodology.

Once an NBFC attains the status of NBFC-UL, it becomes subject to heightened regulatory requirements. These requirements are outlined in the 'Scale Based Regulation (SBR): A Revised Regulatory Framework for NBFCs,' which was issued in October '21.

These enhanced regulatory requirements will apply significantly for at least five years after an NBFC is classified in the Upper Layer, even if it does not meet the parametric criteria in subsequent years. This approach underscores the RBI's commitment to maintaining stringent oversight and regulatory standards within the NBFC sector.

However, amid the regulatory changes and the push for compliance, certain norms, primarily two, have raised concerns among start-up founders and industry observers. These issues require further clarification or a deadline extension to ensure full compliance.

One contentious rule mandates that repayments must be directed to the regulated entity's bank account without passing through any intermediary or pass-through account. This has raised challenges for many lending platforms.

Previously, most lending platforms operated through a third-party account, where repayments were collected either via the National Automated Clearing House (NACH) or through their mobile apps and web platforms. From this escrow account, regulated entities such as banks and NBFCs received their funds and interest, while the platforms received their commissions.

The RBI's crackdown on this arrangement posed a significant challenge for lending platforms in routing repayments for existing borrowers whose installment payments extended beyond 30th Nov '23.

To fully comply with the requirement that customers pay directly to the regulated entity, there is a dependency on customers, and achieving 100% compliance may not be possible by the deadline. However, most platforms have successfully linked borrowers' bank accounts to lending partners' accounts. Many lending platforms have even incentivized borrowers to complete NACH mandates successfully.

Another rule that needs more clarification is the First Loan Default Guarantee (FLDG). This is an arrangement between fintech companies and regulated entities in which the fintech firm compensates the regulated entity in the event of borrower defaults.

The latest RBI guideline does not entirely limit the use of FLDG arrangements. Due to the lack of clarity around FLDG, fintech companies and regulated entities are exploring alternative formats, such as incentive systems, where regulated entities provide incentives to lending platforms based on the performance of their loan portfolios.

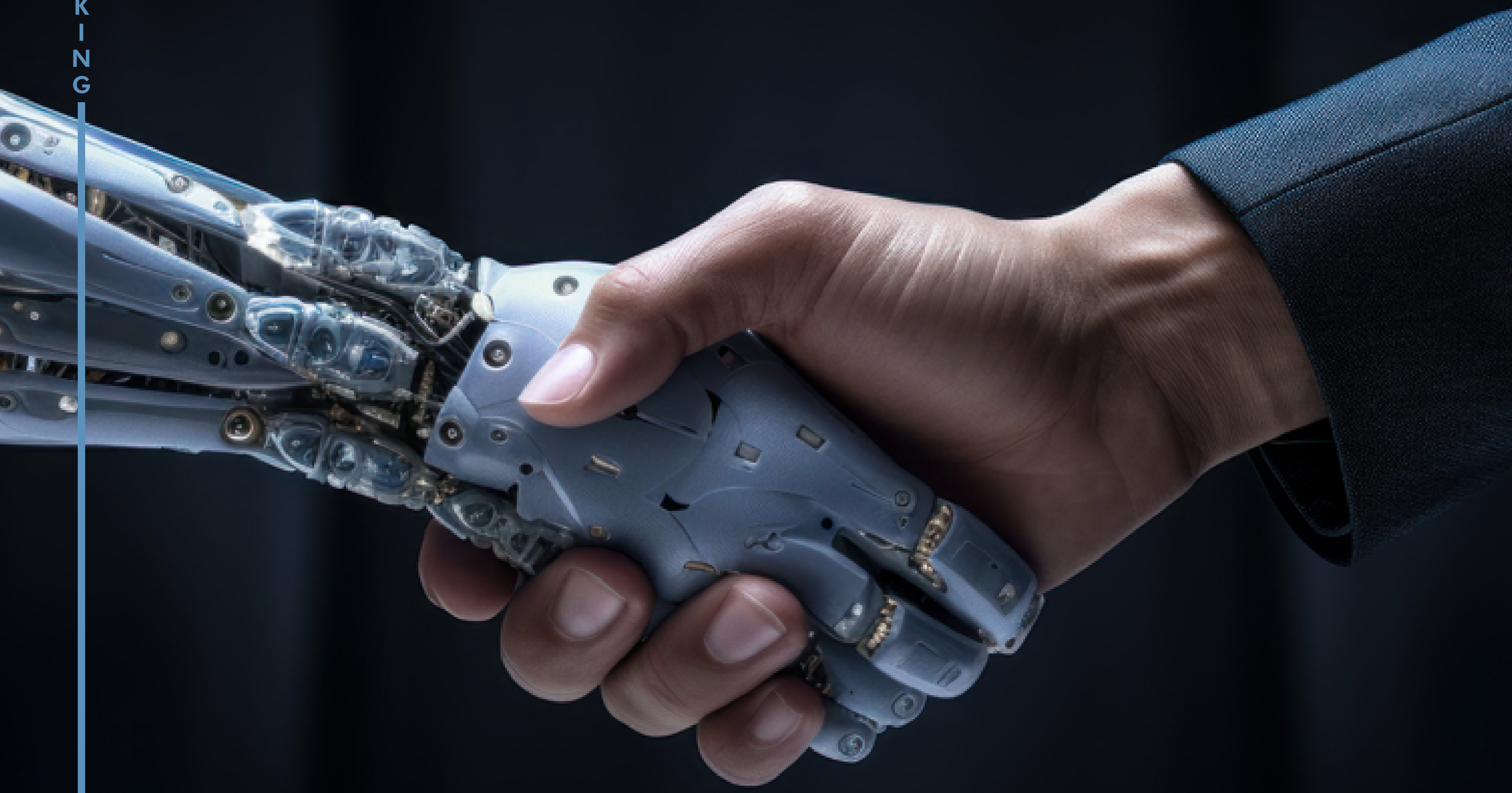
However, some experts believe that these arrangements may be temporary. Obtaining an NBFC license has become more challenging due to the increasing number of applications received by the RBI, primarily driven by the new regulatory norms.

The regulator has recently rejected NBFC license applications from multiple companies, signalling that lending platforms must be more diligent in their NBFC applications.

With the difficulty in obtaining NBFC licenses, more prominent players in the fintech industry may consider acquiring smaller platforms that already possess NBFC licenses. This trend could lead to further consolidation in the sector. As many players in the market currently lack NBFC licenses, there is likely to be consolidation and a cleaning up of the market. By acquiring registered NBFCs, these players can continue their operations without waiting for their license application to be approved. It is worth noting that completing an NBFC acquisition can be a time-consuming process, almost equivalent to obtaining a fresh NBFC license.

In conclusion, it can be said that the RBI's decision to subject NBFCs to enhanced regulatory requirements reflects the central bank's dedication to improving regulatory oversight in the financial sector. The categorization of NBFCs into different layers and the application of enhanced regulatory requirements will play a pivotal role in shaping the future of India's financial landscape. These measures are intended to strengthen trust and stability in the sector while ensuring that NBFCs comply with the necessary regulations and guidelines. The outcome of this regulatory endeavour will be closely monitored as it reshapes the operations and prospects of the country's leading NBFCs.

Nevertheless, the future of NBFCs looks promising. The sector is poised to grow in the coming years. This expansion is expected to be powered by various factors, including the increasing appetite for credit, government initiatives to enhance financial inclusion, and digital transformatio**N.**



THE $1-TRILLION AI PUSH

The government has chalked out an ambitious plan for making AI the next growth frontier and taking the Indian economy close to the $25 trillion goal by 2047

Starting from privatization in 1991, India's phenomenal GDP growth in the last three decades has come in leaps and bounds.

The next push came in the 2000s from the IT sector, which while capitalizing on the Y2K demand, captured a bigger global software services pie. The IT success was followed by pharma and auto exports, which firmly put India on the 8% GDP growth path. Subsequently, the formalization of the economy with GST and digitalization in the last 8-10 years has brought the $5 trillion economy goal in sight.

Currently, consumption, manufacturing and services are driving India's growth, while emerging frontiers such as climate change and clean tech and transport promise upcoming avenues to become a $25 trillion economy by 2047, well in time for the country's 100th anniversary.

Artificial Intelligence (AI), brought in the public limelight with ChatGPT, has emerged as another road for India to move towards its growth targets. The government has charted a roadmap to add almost $1 trillion to the Indian economy by harnessing the power of AI.

$967 BILLION VISION

India's approach to building a national AI ecosystem is characterized by a mission-centric strategy with the vision of 'AI for All.' The Ministry of Electronics and Information Technology (MeitY) has unveiled the IndiaAI Report 2023, a comprehensive blueprint chalked by seven working groups, offering practical recommendations for developing the AI ecosystem. The primary objective is to enhance governance through smarter and more data-led approaches.

The report predicts that AI will contribute $967 billion to the Indian economy by 2035 and $450 billion to ₹500 billion to India's GDP by 2025, accounting for 10% of the country's $5 trillion GDP target. This report builds upon existing initiatives like the Draft National Data Governance Policy 2022.

It outlines a crucial roadmap for advancing AI in India, considering key aspects like data, infrastructure, governance, and skills development.

Here are proposals from the seven working groups aimed at forming the AI ecosystem:

Centres Of Excellence: Proposes the establishment of Centres of Excellence (CoEs) comprising experts from academia, industry, and research entities. These CoEs will focus on developing scalable solutions across sectors, operating on the principles of autonomy and self-sustainability.

India Dataset Platform: Envisions a federated approach to acquiring and utilizing high-level datasets distributed across multiple systems or organizations. Aims to ethically handle data within ministries, avoiding breaches of citizens' privacy.

Institutional Capacity and Design Of NDMO: Focuses on implementing the Draft National Data Governance Policy (NDGP) through the creation of the National Data Management Office (NDMO), an institution responsible for data integrity, audit, management, and regulation.

IndiaAI Future Design: Introduces the 'IndiaAI Future Design' scheme for start-ups, emphasizing funding mechanisms for AI start-ups and ecosystem development. Identifies key stakeholders in the AI start-up ecosystem, including data, infrastructure, knowledge, funding, industry, and procurement.

IndiaAI FutureSkills: Highlights the need for systematic up-skilling and training in high-end research and development to meet the sophisticated demands of AI. Envisages a framework for creating a talent pool and skilled contributors across various sectors.

IndiaAI Future Labs Compute: Addresses the computing technology required for effective AI development in India, proposing a three-tier structure for AI computing systems. Emphasizes the development of a nationwide AI infrastructure to overcome challenges related to accessibility, costs, data privacy, security, and the skilled workforce.

Semicon IndiaAI Chipsets: Examines the design approaches for AI chipsets with implications across various sectors, such as healthcare, autonomous vehicles, financial services, natural language processing, recommendation systems, and robotics. Proposes criteria for assessing AI hardware and software.

WHAT THE GOVERNMENT FORESEES

Union Minister of State for Information and Technology Rajeev Chandrasekhar has announced the government's plan to organize a global summit titled 'India AI - 2023' on 10th December, stressing on a significant push towards artificial intelligence.
The government aims to achieve a $1 trillion digital economy, constituting 20% of the $5 trillion GDP target by 2026-27. Chandrasekhar reiterated the strategic importance of AI in reaching this goal, citing Prime Minister Narendra Modi's launch of the 'India AI' programme.

He sees AI and online gaming to contribute up to $300 billion to India's GDP by 2026-27.

WHAT NASSCOM SAYS

The integration of AI and an effective data utilization strategy has the potential to contribute $500 billion to India's GDP by 2025, as per a Nasscom report titled 'AI Adoption Index' and developed with EY, Microsoft, EXL, and Capgemini. It highlights that AI adoption in key sectors such as BFSI, consumer packaged goods and retail, healthcare, and industrials / automotive can contribute 60% of the total $500 billion opportunity.

Despite India's current AI investments growing at a CAGR of 30.8% and expected to reach $881 million this year, this still represents only 2.5% of the global AI investments totalling $340 billion. The report emphasizes an opportunity for Indian enterprises to accelerate investments and AI adoption to drive growth across sectors.

To achieve its $1 trillion GDP goal by FY26-27, the report suggests a strong correlation with the maturity of AI adoption is essential. The Covid-19 pandemic has accelerated the urgency for organizations to transition from data and technology silos to building specialized AI capabilities at scale, coupled with a structured data utilization strategy, noted Debjani Ghosh, President of Nasscom.

With a considerable number of STEM graduates and digital natives, India stands as one of the leading talent hubs for AI. The report reveals that 65% of organizations already have a defined AI strategy at either a functional or enterprise level. However, the rapid expansion of AI applications has created a supply-demand gap, with 44% of businesses having dedicated or cross-functional AI team structures, while 25% rely entirely on outsourcing for AI talent, it said.

THE AI START-UP PLAN

The MeitY Start-up Hub (MSH) has introduced the Future Design IndiaAI scheme with a budget of ₹ 945 crore and matching funding of ₹ 3,000 crore over five years.

The scheme aims to discover, support, grow, and accelerate successful AI start-ups, emphasizing collaborative engagement among start-ups, government, and corporates to promote and scale up new technology and innovation. It envisions impacting and consolidating 725 tech start-ups over the next five years, fostering an inclusive AI start-up ecosystem for the country's techno-socio-economic development.

The IndiaAI start-up support scheme, under MeitY, plans to assist approximately 725 AI start-ups through incubators, accelerators, matching funding, and a fund-of-fund basis. The initiative is expected to strengthen innovation, entrepreneurship, and economic growth in emerging and niche technology areas. The scheme empowers AI start-ups to develop AI-enabled products and solutions for both India and the global market.

Key objectives of the scheme include developing and utilizing the R&D ecosystem, promoting innovation in AI and related emerging tech, establishing a funding mechanism for comprehensive AI start-ups, providing access to state-of-the-art infra through Centers of Excellence, and initiating collaboration with industry, states, government organizations, academia, and foreign bodies.

The scheme also focuses on investment in early-stage start-ups, commercialization, growth, community building initiatives, and strengthening the ecosystem through workshops, capacity-building activities, and conferences. Start-ups in the product development stage will receive a maximum grant of ₹ 30 lakh as pre-seed funding, supporting 500 AI start-ups with a total funding of ₹ 150 crore in five years. For the growth stage, each start-up will receive a sum of ₹ 5 crore with matching funding of 1:4, benefiting 150 AI start-ups with a total funding of ₹ 750 crore from MeitY.

The scheme is expected to generate significant product development, IP creation, and 3-6 times returns over five years. The commercialization of AI start-ups will be facilitated through grand challenge programmes, with a proposed budget of ₹ 45 crore for 15 challenges in a five-year period.

THE POTENTIAL

In recent years, AI has become a compelling investment opportunity, attracting significant financial support from venture capital firms, corporate investors, and governments. Several key trends are shaping the growth of AI investments:

Increased Focus On AI Start-Ups: These companies are actively developing innovative AI technologies, applications, and platforms across diverse sectors such as healthcare, finance, retail, and transportation. Investors are actively seeking promising AI start-ups to fund their growth and development.

Healthcare: AI has the transformative potential to revolutionize healthcare delivery, diagnostics, drug discovery, patient monitoring, and personalized medicine. Investors recognize the power of AI in improving patient outcomes, reducing costs, and enhancing overall efficiency in healthcare services.

AI Financing For Financial Services: Financial institutions are leveraging AI to automate processes, enhance fraud detection, optimize trading strategies, and improve the overall customer experience. The integration of AI-powered chatbots and virtual assistants is becoming prevalent, providing personalized financial advice and support.

AI R&D: Beyond start-ups, key investments are being directed towards AI research and development. Major tech companies are investing in AI research labs and initiatives to push the boundaries of AI capabilities, develop new algorithms, and drive innovation across domains.

Industry-Specific AI Solutions: Rather than generic AI platforms, companies providing industry-specific AI apps are gaining attention. These solutions are designed to address the unique challenges and requirements of sectors such as healthcare, finance, manufacturing, retail, and agriculture.

Focus On Personalized Experience: Delivering personalized customer experiences have become a top priority for businesses. AI enables companies to analyze vast amounts of customer data, offering tailored recommendations, product suggestions, and targeted marketing campaigns. Investors are particularly interested in AI start-ups specializing in customer analytics, recommendation engines, and personalized marketing platforms.

AI In Edge Computing: Edge computing, which involves processing data closer to the source rather than relying on centralized cloud infra, has gained prominence. Artificial Intelligence algorithms are being deployed at the edge for real-time data analysis, reduced latency, and enhanced privacy. Investors are actively seeking AI start-ups that combine edge computing and AI to create efficient and intelligent edge devices and applicationS.

While the Centre's fiscal deficit remains contained, difficulty in withdrawing populist policies can impact fiscal prudence in the medium term

PERILS OF POPULISM

The government has decided to extend its free food grain distribution scheme for five more years. The welfare scheme which was to expire in December '23 will now be extended until 31st Dec '28. The scheme entitles around 80 crore people to receive 5 kilograms of rice, wheat and coarse grain for free.

Many see this move as a populist measure to appease voters ahead of the general elections next year. There are also expectations that allocations for other welfare schemes too would be increased to appease voters. Some expect the government to announce more populist policies in case the Bharatiya Janata Party (BJP) puts up a bad show in the upcoming state elections in Chhattisgarh, Mizoram, Madhya Pradesh, Rajasthan and Telangana.

While in India announcements of welfare schemes before the elections are normal, there are risks attached as it may lead to competitive populism. The fact that the government had to extend the free food grain scheme – a scheme which was announced during the Covid pandemic and later subsumed in the existing food schemes of the government - reflects the difficulty in withdrawing populist policies once they are announced.

As far as the free food grain scheme is concerned, there are two important macro implications. One, to ensure the availability of grains, the government would put restrictions on exports of food grains. This could lead to lower supplies of food grains in the market leading to higher inflation.

Two, there could be higher spending on procurement of food grains by the government. As procurement costs increase, it will increase the food subsidy bill of the government over time. This, in turn, could lead to an increase in fiscal deficit.

FISCAL DEFICIT - CURRENTLY ON TRACK

To highlight, the central government's fiscal deficit is currently contained and is in a position to absorb higher expenses due to the free food grain programme. Fiscal deficit refers to the amount by which a government's spending exceeds its income in a given financial year.

Fiscal deficit leads to increased borrowing from the market by issuing government bonds. The central government's fiscal deficit for the April-September period stood at 39% of the ₹ 17.9 trillion target set by the Union Budget, compared with 37.3% in the same period last year. It is significantly lower than the long-term average of 65.1%.

Both expenditure and receipts have been showing healthy trends reflecting the strength of the central government balance sheet. Higher dividend payout by the Reserve Bank of India has also helped fill the fiscal deficit gap.

For the ongoing fiscal year 2023-24, the Union Budget has targeted a reduction in the centre's fiscal deficit to 5.9% of the gross domestic product (GDP) from 6.4% of GDP the previous fiscal. The government has a fiscal deficit target of 4.5% of the GDP by financial year 2025-26.

The free food grain programme is estimated to cost the government around ₹ 2 trillion. According to experts, given the market scenario and grain stocks available with the government, the fiscal costs due to the extension of the food scheme would remain the same even in the next fiscal year.

RISK FACTORS

But over the medium term, there are a lot of factors that are likely to upset this fiscal deficit calculation.

Agri-inflation: Currently the global agri-commodity markets are volatile due to geo-political and weather-related issues. Any increase in food grain prices globally will reflect in domestic prices. This will lead to higher procurement costs.

Alternatively, to ensure the availability of grains for food schemes, the government will have to put restrictions on exports. The government has already put a lot of restrictions on exports of rice and wheat in the last two years. Higher demand and lower supply would lead to agri-inflation.

Slowdown In Economy: Due to a slowdown in the world economy, there are expectations that India's real GDP growth will slow to 6% year-on-year in fiscal 2023-24 from 7.2% in the previous year. The slowdown impact will start showing from the second half of the current fiscal year. This is expected to hit the Indian economy through weaker exports.

Domestic demand is also expected to slow down as a consequence of the RBI's past rate hikes. As the economy slows down, the tax revenue will come down, thereby offering risks of fiscal slippages in the medium term.

IN CONCLUSION

Fiscal deficit, per se, is not bad. Managing the fiscal deficit is a critical aspect of fiscal policy. A high fiscal deficit can lead to increased government borrowing, which raises inflation and the rate of interest and reduces the availability of credit for private investments.

Remember, after a tremendous rise in government expenditure on infrastructure, it will be India's private sector, which will provide the next leg to economic growth. The corporate capex cycle will gain traction only if interest rates are lower and stable.

Further, accumulated fiscal deficits over the years contribute to a country's overall public debt burden. Our debt burden is currently high. India will need a credible plan to reduce India's debt / GDP from the current 83% to 84% levels to the pre-pandemic level of 70%.

Also, the combined fiscal deficit of the centre and states still remains at a higher level. The consolidated fiscal deficit is close to 9% of the GDP currently. As per government plans, this needs to be brought down to at least 7% of the GDP by the end of 2030: the centre's fiscal deficit of 4.5% of GDP and the states' fiscal deficit at 2.5% of GDP.

It has been seen in the past that infrastructure investments have taken a beating as funds are routed to non-fruitful areas like welfare policies. There may not be any major impact on the fiscal deficit in the ongoing financial year and the next, but there are risks of slippages in the fiscal deficit in the years to come.

Without a credible plan to reduce the fiscal deficit, there are potential risks to inflation, interest rates and private sector growth. Once the election season is behind us, the Indian markets would expect fiscal consolidation to pick up pace, as in the long term, investors, both domestic and foreign, dislike any unsustainable fiscal regim**E.**

SOWING SELF-SUFFICIENCY

India is actively cultivating a strategy to stimulate domestic demand, promoting self-reliance in the production of edible oils

Like in the case of petroleum, where 85% to 90% of India's requirements are imported, the country's self-sufficiency in edible oils is dipping over the years. In the recently concluded oil year (November-October) 2022-23, India's imports of edible oils reached an all-time high of 16.47 million tonnes from around 14 million tonnes in the previous year.

Around 60% of the country's domestic demand for edible oils is met through imports. In the year gone by, India imported around 9.8 million tonnes of palm oil from Indonesia, Malaysia and Thailand; 3.7 million tonnes of soybean oil from Argentina and Brazil; and about 3 million tonnes of sunflower oil from Russia, Ukraine and Argentina.

To set the context, India has resorted to imports since 1990. This was done to bridge the demand-supply gap. Today, India is one of the largest consumers of vegetable oil in the world. India is also the largest importer of palm, soybean and sunflower oil in the world. However, there exists a gap between domestic supply and demand.

From a 20-year perspective, the import volume of edible oil has increased by around 3 times while the cost of import has gone up nearly 17 times. This has led to a massive outgo of foreign exchange. According to trade body The Solvent Extractors' Association of India, import volumes have surged from just 5 million tonnes in 2001 to an all-time high of 16.47 million tonnes currently. In the same period, India's import bill has gone up from ₹ 7,000 crores to around ₹ 1.4 lakh crores in 2022-23.

India's US $35 billion edible oil industry has reached a stage where imports have started to pinch the government (through the loss of foreign exchange reserve), the consumers (through price volatility) and the domestic vegetable oil refining sector (through the loss of business).

Why has India come to such a pass? And what is the way out?

Low Cultivation: India's current edible oil consumption is about 24 million tonnes. Local production is only about 11 million tonnes, so the rest of the requirement is imported. Over 30 million hectares of land is under oilseed cultivation, which produces around 34 million tonnes of oil seeds. India also uses about a million tonnes of vegetable oils for industrial purposes.

However, the growth in the area under cultivation is slower than the demand, causing a demand-supply mismatch. One of the reasons for this is that India's vegetable oil market is not homogeneous. Different regions in India have developed a preference for certain edible oils.

For instance, in western India, groundnut oil is preferred. People in the east and north prefer mustard oil. Sunflower oil, sesame, and coconut oil are preferred in south India. Of late, rice bran oil and cottonseed oil have been gaining popularity in India.

Depending on the climatic conditions in different pockets, India grows various types of oilseeds (Groundnut, Soybean, Rapeseed, Sunflower, Sesamum, Castor, Safflower, Linseed, Cottonseed, and Copra). The non-homogeneous nature of the sector prohibits scaling up in the sowing area, resulting in lower production.

Increasing Demand: With a rising population and growing economy, the per capita consumption of edible oil has been rising year after year. This has pushed the quantum of imports even higher. Currently, the per capita consumption is around 17 kilograms. Consumption is growing by 2% to 3% per annum. By 2029-30, India may need 28 million tonnes to 29 million tonnes of edible oil (from around 24 million tonnes currently), while local production is expected to be only 15 million tonnes to 16 million tonnes (from 11 million tonnes presently). The local domestic production of oilseeds is expected to increase to 45 million tonnes to 48 million tonnes by 2029-30 (from 34 million tonnes now).

Skewed Demand: Palm oil accounts for nearly 38% of India's total domestic edible oil consumption, followed by soya oil at 20%, rape / mustard oil at 14%, and sunflower oil at 9%. However, the palm oil segment accounts for almost 60% of total edible oil imports. Palm oil, being cheaper than other vegetable oils, has been gaining popularity in the last one decade and is the single largest source of vegetable oil globally.

Even in India, edible oil consumption is skewed towards palm oil. Palm and its derivatives are used as inputs in the food industry and in many industries. A major side effect of high dependence on palm is the vulnerability to international price fluctuations. Often, key producing nations like Malaysia and Indonesia, through tariff policies, keep production skewed with them thereby taking the benefit of high prices.

IN A NUTSHELL

Stepping up edible oil output from domestic sources is the only way out to reduce the country's dependence on imports. Even the government has realised this fact. The Indian government is focusing on increasing the domestic production of palm oil. It is incentivizing palm production in southern and north-eastern states through various schemes.

But due to a lack of efficient procurement mechanisms and stable pricing, farmers are shying away from shifting their sowing area towards palm and other oilseeds. The government will have to find a mechanism to insulate farmers from price volatility.

Additionally, for a sustainable long-term solution, India will have to invest in research and use advanced farm technologies to support domestic production capabilities. The government also needs to protect the domestic vegetable oil refining industry.

Today, the low-duty differential between crude and refined palm oil is negatively impacting the domestic vegetable oil refining industry.

Because of the skewed tariff policies of major palm oil nations, importing refined palm oil is cheaper than importing crude palm oil from these nations.

This is impacting refiners back home in India, as importers prefer importing refined palm oil as against crude oil. Only through joint efforts of the government, oil seed growers and the refining industry can India reduce imports and ensure a stable and secure edible oil supply for the countrY.

A CEMENTED FUTURE

The recent hike in cement prices has stoked confidence, fuelled by prospects of a demand surge

A major shift has occurred in India's cement industry after a challenging period of intense competition and weak demand. Traditionally, cement firms cut prices in response to low demand, prioritizing volume over pricing. However, in the past two months, these firms have raised prices despite demand remaining weak, and they've maintained these hikes. This shift suggests a new earnings story for the current fiscal year, surprising and encouraging analysts. To understand the strategy's viability and its long-term impact on well-positioned cement firms, read on for a detailed perspective.

THE BASICS

Based on analysts' discussions with dealers, the all-India average cement price rose by 4.6% in October '23 on a month-on-month basis. This increase can be attributed primarily to the consistent price hikes implemented by cement companies.

In October, cement firms raised prices by approximately ₹ 10 per 50 kg bag to ₹ 30 per 50 kg bag across various regions in India. It's worth noting that in September '23, cement firms had raised prices by a more substantial range of ₹ 45 per 50 kg bag to ₹ 50 per 50 kg bag.

Among the regions, the highest price hike was observed in the southern region, with price increases ranging from 9% to 9.5% on a month-on-month basis. The second-highest price hike was noted in the northern region at 6%, followed by the western region at 5.6%, and the central region at 2.8%.

Cement firms have been anticipating this growth in cement prices for quite some time. After a few quarters of cautiously increasing prices, it appears that, in the past two months, cement firms have adopted a conscious and focused strategy. They have sharply raised cement prices by approximately 12% to 13%. What makes this price hike remarkable is the timing at which cement firms have taken this bold and aggressive stance.

Typically, in a fiscal year, the demand for cement during the September quarter is weak due to the monsoon period, resulting in reduced construction activities. Surprisingly, analysts, through their interactions with cement dealers, have noted that firms have maintained these price hikes even when the demand for cement has been low, and sales volumes have been impacted.

Cement firms typically respond to a decline in sales volume by quickly reducing prices. What surprises analysts is the bold decision of these firms to maintain the price hikes, even at the expense of reduced volumes.

Some analysts suggest that this move may be aimed at establishing a price ceiling well in advance to benefit significantly when demand improves in the second half of the current fiscal year. Additionally, they believe that firms are reluctant to absorb the increased costs of key raw materials.

IN THE COMING QUARTERS

Now, let's understand why cement firms have chosen to implement a price increase strategy, even before a substantial improvement in demand has materialized. Analysts anticipate a heavy boost in the demand for cement following Diwali 2023.

This optimism stems from the increased execution of construction-related projects across various sectors, primarily in infrastructure and real estate.

It's important to note that the real estate sector alone accounts for over 50% of the demand for cement, with the remaining demand originating from government-funded infrastructure projects and rural areas.

Cement firms have found

themselves compelled to increase prices due to specific economic factors. In the three months leading up to September '23, pet coke and coal prices were trading at historically high levels.

During this period, imported coal and petcoke prices saw substantial increases, rising by 15% and 28%, respectively.

While the prices of imported petcoke remained relatively steady, the prices of imported coal surged by 3% to 12% in South Africa and the US in October '23.

It's worth noting that, on a year-on-year basis, both coal and petcoke prices are still lower. However, what's important to note is that operating costs for the cement sector are projected to increase starting from the March '24 quarter.

Consequently, in FY25, analysts anticipate not only weak demand growth but also rising costs, which will place pressure on both growth and profit margins.

As a result, the recent price hikes are expected to effectively offset the increase in fuel prices over the past two months. Cement companies have placed a strong emphasis on cost-reduction strategies, which involve maximizing the utilization of green power and alternative fuels, encouraging the usage of blended cement, and optimizing logistics costs. These initiatives are projected to further bolster the industry's profit margins.

This optimism is also reflected in the assessments of research firms. Ratings agency ICRA not only expresses optimism about the improvement of operating profit margins for cement firms but also anticipates an increase in cement volumes in FY24.

According to its sector report, ICRA projects that the revenues of cement companies are estimated to grow by 12% to 14% in FY24, driven by both volume growth and higher realizations.

Furthermore, ICRA estimates that as the cost pressures, especially in power and fuel costs, are expected to ease, the operating margins of cement firms are likely to increase by 200-240 basis points in FY24.

On the volume front, the ratings agency foresees a robust 9% to 10% growth in cement volumes in FY24, supported by demand from the infrastructure and urban housing sectors. Notably, in the first half of FY24, the industry's volumes had already increased by 11% to 12% on a year-on-year basis.

One of the key reasons for the anticipated reduction in overall costs for cement firms is their reliance on thermal power.

ICRA, in its sector report, highlights, "The increasing focus on green power is likely to reduce the cement industry's dependence on high-cost thermal power and the grid for power requirements, thus lowering operating costs. Assuming thermal power costs at ₹ 6.5 per unit, waste heat recovery system (WHRS) power costs at ₹ 0.75 per unit, and solar power costs at ₹ 4.5 per unit, a 25% replacement of thermal power consumption by green power could result in cost savings of around 15% to 18% while also reducing the carbon footprint."

An increasingly prevalent view among analysts is that the cement industry is likely to record a double-digit growth in the second half of the current fiscal year.

Analysts believe that the industry's performance in the latter part of the fiscal year will improve if the sustained price hikes continue for a few more months.

They estimate that if cement firms can maintain these price increases, they are likely to achieve an average Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA) per tonne of ₹ 1,200 to ₹ 1,300 in the second half of the present fiscal, compared to ₹ 800 to ₹ 900 in the past two to three quarters.

Analysts anticipate that the full benefits of the price hikes will become evident in the December '23 quarter, with substantial improvements in the profit margins of cement firms. Given these developments, large-sized firms such as Ultratech Cement, Ambuja Cements, and Shree Cement, which possess major market share and strong balance sheets, are expected to reap substantial benefits in the coming quarterS.

GLIMMERS OF PROSPERITY

Indian festive season sparks a revival in sales growth in the retail sector

Amazon India proudly declared the 2023 festive sale as the most successful in its 13-year history, driven by robust demand. Redseer Strategy Consultants forecasted online sales to surge by 18% to 20%, reaching a staggering ₹ 90,000 crore during the festive season.

In response to this demand surge, consumers diversified their purchases across various categories, embracing items ranging from jewellery, furniture, and mobile phones to air-conditioners, laptops, cars, apparel, and luxury handcrafted chocolates.

AMAZON'S GREAT INDIAN FESTIVAL 2023

Amazon emphatically stated that The Great Indian Festival 2023 witnessed unprecedented metrics, with the highest-ever numbers in customer visits, transactions, new launches, orders, and overall savings compared to previous years.

Highlighting the nationwide impact, Amazon noted customer participation from 99.7% of pin codes across India during the month-long celebrations. Particularly noteworthy was the fact that 80% of customers hailed from Tier-2 and -3 cities, resulting in an exceptional 110 crore-plus customer visits.

With over 65% of Amazon Prime members participating from Tier-2 and -3 cities during the festive season, the online retail giant observed a remarkable 35% increase in sales for small and medium businesses.

Amazon also set records for seller achievements during the 2023 festive season, with over 750 sellers achieving sales in crores and an astounding 31,000 sellers achieving sales in lakhs – the highest number ever recorded during any festive period.

The festive fervour extended to new customer acquisitions, with over 15 lakh new customers making their first purchases across various categories on Amazon. Concurrently, brands embraced the season by launching an unprecedented 5,000 new products.

UNPRECEDENTED TRADE VOLUME

This surge in online sales was mirrored in retail stores, reaching an all-time high during the Diwali season. The momentum continues, with several festivals anticipated in the coming weeks.

The Confederation of All India Traders (CAIT) reported a historic record trade of ₹ 3.75 lakh crore in India's retail markets during the Diwali festival.

Optimistic forecasts predict an additional cumulative sales worth ₹ 50,000 crore during upcoming festivals, including Govardhan Pooja, Chhath Pooja, and Tulsi Vivah. Bhai Dooj also contributed significantly to the overall sales success.

According to CAIT, the breakdown of festive spending during the Diwali season is as follows: 13% on food and grocery, 12% on textiles and garments, 9% on jewellery, 8% on electronics & mobiles, 8% on gift items, 6% on cosmetics, 4% on dry fruits, sweets, and namkeen, 4% on furnishings & furniture, 3% on home decor, 3% on pooja samagri & puja items, 3% on utensils & kitchen appliances, 2% on confectionery & bakery, and the remaining 20% on automobiles, hardware, electrical, toys, and various other goods and services.

As per CAIT's data, India's retail markets recorded sales of ₹ 2.75 lakh crore during last year's Diwali season.

The traders' body claims that Prime Minister Narendra Modi's appeal for "vocal for local" resulted in a preference for goods made in India, leading to a drop in the sale of Chinese goods worth ₹ 1 lakh crore.

REVENUE GROWTH OVER HIGH PROFIT MARGINS

The festive season in India is not only a time for celebration but also a period of robust economic activity, with consumers eagerly seeking the best deals and discounts. This year is no different.

As predicted earlier, retailers in the consumer goods, white goods, and fashion sectors prioritized sales growth over profit margins during the festive season.

Despite rising raw material prices, companies opted for promotions to drive demand, potentially impacting margins in the October-December quarter.

For instance, electronics companies have stated that, despite elevated prices in raw materials, they will not hike prices.

Instead, they plan to offer promotions to capitalize on higher demand. Input costs have gone up for components such as plastic and other raw materials.

Similarly, in fashion, labour costs have gone up along with raw materials and other input costs. However, retailers, aiming to continue the sales momentum after almost three years of lag post-Covid, are willing to sacrifice 10 to 15 basis points on their margins, according to industry experts.

However, due to deep discounts offered by retailers ranging from 50% to 90%, the sector is witnessing strong growth in sales, particularly online.

ONLINE AND OFFLINE RETAIL GROWTH

A report from Redseer Strategy Consultants indicated a strong 25% year-on-year growth in online retail during this festive season, driven by category democratization. Long-tail categories such as home, groceries, and beauty personal care witnessed the most significant growth.

In particular, the unbranded fashion sector in Tier-2 cities experienced impressive expansion, with one in every five orders featuring traditional attire like kurtis and sarees.

Gifting emerged as a strong motivator for purchases across various categories, contributing to increased overall satisfaction with online platforms.

E-COMMERCE SOARS WITH HIGHER SPENDS

As per the RedSeer report, mobile phone sales contributed to nearly 41% of the Gross Merchandise Value (GMV) during the festive season sales for e-commerce platforms in 2022.

GMV is a measure of the total value of the goods sold over a fixed period. E-commerce platforms witnessed remarkable success during the first week of India's festive season sale in 2023.

The report stated they generated a GMV of approximately ₹ 47,000 crore, marking a substantial 19% growth compared to the previous year. Mobiles, electronics, and large appliances emerged as the primary drivers, accounting for nearly two-thirds of the GMV during this period.

The last day of the first week's sales recorded a remarkable 36% year-on-year growth, marking one of the highest single-day growth rates seen during the festive season.

Nilesh Gupta, Director, Vijay Sales, said, "People are putting money in their mobiles. It is a device they don't want to compromise on. When people travel, they watch content on their cell phones. The overall demand has been reasonably good and we saw more store footfalls this season. Laptops, smart-watches, small appliances and mobiles have done well."

Premiumization has been the flavour of the season with consumers upgrading their purchases across most categories, including refrigerators, washing machines and ACs.

The trend, persisting despite inflation's stubbornness in the past few quarters, is facilitated by various easy financing schemes for consumers.

Kamal Nandi, Business Head and Executive Vice-President at Godrej Appliances, noted, "Frost free (refrigerators) have done extremely well, single doors have not done well, top-loads (washing machines) have done well."

Further strengthening the

online retail ecosystem, this festive season saw robust growth for a majority of sellers. India remains a compelling consumption story despite global macroeconomic headwinds.

Offline retail stores experienced robust footfalls during Diwali this year, as evidenced by the growth seen in the Google Mobility Index.

The simultaneous growth of online and offline retail reaffirms the domestic consumption story and indicates ample growth opportunities for both formats.

DIVERSE CONSUMER BEHAVIOUR

Redseer's report unveiled intriguing insights into consumer behaviour. Approximately 55% of the shoppers who participated in the first week's sales continued their shopping spree throughout the festive season.

Notably, more than half of these consumers were eyeing fashion purchases, while over 25% considered beauty and personal care products, along with home and living items.

These trends illustrate two distinct consumer behaviours - one segment carefully selects premium products at attractive prices, while the other shops more frequently but emphasizes value for money.

DISCOUNTS GALORE AT FLIPKART

For those eager to make the most of the festive season, Flipkart's Big Dussehra Sale 2023 provided an exciting opportunity, offering discounts ranging from 50% to 80% across various categories.

In addition to product-specific discounts, Flipkart had partnered with ICICI, Kotak, RBL, and SBI to provide a 10% instant discount, along with an exclusive ICICI offer for Flipkart Plus members.

SMARTPHONES, WHITE GOODS IN FULL BLOOM

One of the major attractions of the festive sale was the substantial price drop on smartphones.

While Flipkart, Amazon, and Meesho dominated the show, vertical-specific e-commerce players like Nykaa and Croma, along with direct-to-consumer (D2C) brands, also witnessed strong sales growth.

Ashish Sikka, Chief Strategy Officer at third-party logistics company, Ecom Express, mentioned that another trend during the festive season was the logistics platform seeing a decline in Cash on Delivery orders by up to 5% from the average. This was due to better discounts and a push towards prepaid deliveries by the marketplaces.

Top categories, including smartphones continued their dominance during the festive sales as the major contributor to the GMV of e-commerce marketplaces.

Flipkart reported that its premium smartphone segment grew by over 1.7 times compared to the previous year's sales.

IN A NUTSHELL

With the conclusion of Dhanteras, Diwali and Bhai Dooj, the Indian festive season has more or less come to an end. Inputs gathered from industry executives suggest that it closed on a positive note, with sales comfortably surpassing last year's numbers.

India's festive season is not only a time of celebration but also an economic extravaganza for shoppers and retailers alike.

E-commerce platforms witnessed remarkable growth, showcasing diverse consumer behaviours and a plethora of discounts and offers to attract shoppers.

The concurrent growth of online and offline retail further underscores the strength of India's consumption story, promising ample opportunities for both formats. As the festive season continues, shoppers can expect to find even more exciting deals and experiences, both online and offline.

Moreover, owing to the impact of the cricket World Cup, smartphones emerged as clear winners, with huge consumer demand for a premium range of phones.

For instance, Vijay Sales, saw a nearly 50% to 55% year-on-year growth in sales of mobiles during this festive season (from Navratri to two days post-Diwali). This, somewhat, indicates that the trend of on-the-go entertainment consumption is here to staY.

FRIGID FORTUNES

THE REFRIGERANT GASES SECTOR IS ON A RAPID GROWTH TRAJECTORY, DRIVEN BY THE SURGING DEMAND FOR AIR CONDITIONERS

As stock market investors, identifying sectors with promising growth prospects and potential profitability is essential. One such sector offering an attractive opportunity is the refrigerant gases industry.

The Indian refrigerant gases industry is poised for huge growth, primarily due to robust domestic demand. The country's rapid urbanization, coupled with an increase in disposable incomes, has led to a rising demand for air conditioning units, especially in residential spaces. This trend has created a substantial untapped opportunity, supporting the potential for long-term growth.

Furthermore, with the country's economy booming, this growth is expected to accelerate in the coming years. The combination of increasing urbanization, higher disposable incomes, and the desire for better living conditions has created a favourable environment for the refrigerant gases industry to thrive.

DOMESTIC DEMAND DRIVERS

Growing Urbanization

India is currently experiencing rapid urbanization, marked by a significant increase in its urban population. According to the United Nations, India is projected to add 416 million urban dwellers by 2050. This ongoing trend of urbanization has resulted in a substantial demand for air conditioning units, consequently driving the need for refrigerant gases.

Globally, there are approximately 160 crore installed air conditioners. In contract, India has only about 9 million to 10 million installed AC units, which accounts for a mere 6% of the total worldwide. When we compare India to other advanced nations, it becomes evident that the country has very low AC penetration, hovering at around 5% to 6%. On the other hand, countries like Japan have reached a penetration rate of 91%, the US at 90%, and China at 60%.

Nevertheless, India's AC market is growing at an impressive rate and is predicted to reach a 69% penetration rate by 2040. According to RationalStat's analysis, the air conditioner market in India was valued at 9 million units in 2022, implying a robust Compound Annual Growth Rate (CAGR) of 15%.

Increasing Disposable Incomes

The rise in disposable incomes among the Indian population plays a pivotal role in driving the demand for air conditioning units. Notably, India's per capita net national income (NNI) has surged to ₹ 1,70,000 in fiscal year 2023, reflecting a robust annual growth rate of 13.7%.

Furthermore, it's important to highlight the government's ambitious objective to transition into a developed nation by the end of the year 2047. As part of this transformative journey, India's per capita income is anticipated to increase substantially by 7.5-fold, reaching ₹ 14.9 lakh, as projected by an economist closely monitoring economic trends at SBI research.

This notable increase in purchasing power will enable a larger number of households to afford air conditioning units, thereby leading to a substantial surge in demand for refrigerant gases.

Changing Lifestyles & Demand For Comfort

As lifestyles continue to evolve, there is a noticeable and growing preference for comfortable living spaces equipped with air conditioning units. This shifting preference is driven by the desire for an enhanced quality of life and improved comfort levels, which has, in turn, fuelled the demand for air conditioning units.

This increasing demand for air conditioning units is well-supported by data from a report by TechSci Research, which projects massive growth in the Indian air conditioner market. The report suggests a CAGR of approximately 13% between 2021 and 2026.

This trend not only highlights the current market potential but also brings into focus the untapped opportunity that exists for further growth.

Climate Conditions

India experiences hot and humid weather conditions for a substantial part of the year, with greater intensity in regions like North India. This prevalent climatic factor creates a strong and consistent demand for air conditioning units.

Furthermore, the data from the India Meteorological Department reveals that the average temperature in India has been on the rise over the years. This escalating trend not only validates the need for air conditioning but also serves as a driving force behind the increasing demand for refrigerant gases.

Government Initiatives

The Indian government has undertaken several initiatives with the primary objective of promoting energy efficiency and mitigating greenhouse gas emissions. A key program in this regard is the Indian Cooling Action Plan (ICAP). This plan is designed to phase out high-GWP (Global Warming Potential) refrigerants, and in turn, encourage the adoption of low-GWP alternatives.

This initiative aligns with global efforts to combat climate change, underlining the commitment to environmental responsibility and sustainability.

Furthermore, the importance of these initiatives is accentuated by data from the Bureau of Energy Efficiency, which highlights the potential for significant energy savings in the Indian air conditioning sector. The implementation of energy efficiency measures here can lead to remarkable energy savings of up to 30%, as aspect that demonstrates the importance of these government-led efforts.

Environmental Awareness

A growing environmental consciousness is taking root among consumers, with a heightened awareness of the environmental impact associated with refrigerant gases.

As individuals become increasingly conscious of the need to reduce their carbon footprint, there is a noticeable shift in preference towards eco-friendly refrigerant gases with low global warming potential.

This shift underscores the evolving consumer values and priorities that are shaping the refrigerant gases industry, highlighting the importance of sustainable and environmentally responsible choices.

Infrastructure Development

India is witnessing a significant surge in infrastructure development, including the construction of commercial buildings, shopping malls, logistics parks, ports, manufacturing, railways, defence, transportation, aviation, and hotels. As investments continue to pour into these sectors, they play a pivotal role in supporting higher demand.

Of particular note is the impact of new facilities and projects, in contrast to the past. Unlike earlier developments, these recent projects are creating a substantial and ever-increasing demand for air conditioning units.

This shift is evidenced in a report by JLL India, which projects heavy growth in the retail sector in India. The sector is expected to grow at a CAGR of 9% to 11% over the next five years, driving the demand for refrigerant gases.

Healthcare Sector

The rapid growth of the healthcare sector in India has led to an increased demand for air conditioning units. Hospitals, clinics, and healthcare facilities require optimal temperature and air quality control, which drives the need for refrigerant gases.

Increasing Awareness Of Health And Comfort

As people become more health-conscious and prioritize their well-being, there is a growing demand for air conditioning units to provide a comfortable and healthy indoor environment.

According to a survey by Nielsen, 77% of Indian consumers consider air quality as an important factor when purchasing air conditioning units.

Growing Middle-Class Population

The expanding middle-class population in India has had a significant impact on the demand for air conditioning units.

As per a report by McKinsey, India's middle-class population is expected to reach 570 million by 2025. This demographic shift is likely to create a substantial market for refrigerant gases.

Phasing Out Old Gases

In India, Hydrofluorocarbon (HFCs), particularly R-32, have emerged as the preferred choice for personal air conditioners. This is primarily due to their suitability for cooling purposes and their low global warming potential.

As environmental concerns gain prominence, the demand for eco-friendly refrigerant gases like R-32 is expected to further drive the growth of the industry.

Government Policy Support To Help In Sustained Growth

Also, the Indian government has taken steps to promote energy efficiency and reduce greenhouse gas emissions. Initiatives such as the implementation of the Montreal Protocol and the introduction of the Indian Cooling Action Plan (ICAP) aim to phase out high-GWP refrigerants and promote the adoption of low-GWP alternatives. These measures further support the growth potential of the refrigerant gases industry in India.

Lowering Import Substitute

In addition to the aforementioned factors, the competitiveness of Indian manufacturers in the global market is further enhanced by two key elements.

Firstly, the imposition of anti-dumping duties on Chinese imports provides Indian manufacturers with a competitive edge. This measure helps to level the playing field and protect domestic industries from unfair trade practices, allowing Indian manufacturers to compete more effectively.

Potential For Higher Exports

India has a huge export advantage, especially to neighbouring resource-deficient countries, making them key potential markets. The global refrigerant gases industry is evolving due to environmental concerns and regulatory changes.

Phasing out HCFCs, like R-22, in various countries to reduce ozone depletion and global warming potential presents an opportunity for HFCs, such as R-32, to emerge as preferred alternative. According to an industry report, the global refrigerant gases market size is expected to reach $30.7 billion by 2028.

Additionally, India's lower production costs compared to developed nations, like the United States, make Indian manufacturers competitive while maintaining quality.

This cost advantage attracts international customers and increases market share and profits through exports. Indian companies also have strengths in research and development, backward integration, quality, logistics, and available capacities.

Furthermore, the 'Make in India' initiative by the Indian government promotes domestic manufacturing and reduces dependence on imports.

It aims to boost the manufacturing sector and establish India as a global manufacturing hub. This has led to increased investments in refrigerant gas manufacturing facilities, enhancing the competitiveness of Indian manufacturers in the global market.

STOCK PICKING

In the small but promising refrigerant gases industry in India, companies like SRF and Navin stand out with high-quality businesses and strong balance sheets.

Investors should individually assess them, considering valuation, balance sheet strength, management quality, and industry trends to make informed investment decisions in this niche markeT.

REVOLUTIONIZING RISK

Artificial intelligence is reshaping the insurance industry in India

India is slated to become the sixth largest insurance market by 2032, with total insurance premiums growing on average by 9% annually over the next decade. A large part of this growth can be attributed to technological innovations, popularly known as 'Insurtech' – a blend of 'insurance' and 'technology.'

In the rapidly evolving landscape of the Indian insurance sector, the integration of Artificial Intelligence (AI) has emerged as a transformative force. As the digital age continues to redefine industries, AI is playing a pivotal role in reshaping the way insurers operate, interact with customers, and assess risk.

This article explores the multifaceted ways by which AI is revolutionizing the insurance sector in India, driving efficiency, personalization, and a heightened customer experience.

According to McKinsey, applied AI, distributed infrastructure, future of connectivity, next-level automation, and trust architecture are poised to reshape the insurance sector, impacting products and processes alike.

While technology is rapidly revolutionizing the sector, helping insurers with far greater risk management strategies and potential for new business opportunities, the ultimate winner is the customer whose entire experience stands to get redefined and re-energized.

Tech companies bring expertise in areas such as artificial intelligence, data analytics, blockchain, and cloud computing, enabling insurers to leverage these technologies for improved risk assessment, underwriting processes, claims management, and customer experiences.

One of the significant impacts of AI and Machine Learning (ML) in the insurance industry is the enhancement of operational efficiency. By automating time-consuming and repetitive tasks, such as data entry, document processing, and policy administration, AI streamlines operations and frees up valuable human resources. This enables insurance companies to optimize their workflows, reduce manual errors, and allocate resources more effectively, leading to improved productivity and cost savings, industry experts said.

Raghavendra Rao, Chief Distribution Officer, at Future Generali India Insurance company points out the numerous ways in which technology is already influencing the insurance sector.

Increasing The Speed And Efficiency Of Claim Settlements: Paperless claims management that allows policyholders to submit claims online has already reduced turnaround times in the industry. Industry experts said that technology has helped leading health insurance companies bring down the average time to authorize cashless approvals on policies from days to under three hours.

Paperless claims management has also been effective in overcoming adverse customer experiences caused by human errors and / or gaps in the documentation trail. The entire online process supplemented by predictive behavioural analytics and digital identity verification is expected to help minimize fraudulent claims in the future.

Taking Risk Management To The Next Level: With the help of IoT devices and telematics, insurtech is enabling companies to collect real-time data, and in turn assess risks more accurately. For example, in auto insurance, telematics devices can monitor driving behaviour, allowing insurers to offer usage-based policies and incentivize safe driving habits.

On the other hand, is a first-of-its-kind farm yield insurance cover that uses remote sensing and satellite data to protect farmers across all stages of the cropping cycle. The satellite-based prediction models aid in assessing potential risks such as droughts, pests, or diseases, helping farmers make informed decisions about their harvesting. This insurance product has been a game changer for both insurers and farmers who were plagued by multiple factors causing unpredictability of the yield and ended up wasting valuable time in manual surveys.

Creating New Economic Opportunities: Technology has provided a fillip to employment opportunities too, from new career options to nurturing the start-up ecosystem. There are more than 140 insurtech start-ups in India, including unicorns. When it comes to fintech, India took the lead with the fintech adoption rate of 84% as compared to the world average rate of 64% according to the Global FinTech Adoption Index.2

Insurance companies are increasingly focusing on recruiting professionals skilled in areas such as data analytics, artificial intelligence, machine learning, cyber security, and digital marketing, with an aim to develop and implement tech-driven solutions that streamline operations, improve efficiency, and deliver personalized experiences to customers.

Moreover, insurance companies are reallocating budgets to invest in technology infrastructure, software development, and digital transformation initiatives, which include, adopting advanced digital platforms, upgrading current systems, and leveraging data analytics tools to gain insights into customer behaviour, risks, and market trends.

Offering Hyper-Personalized Customer Experiences: With access to vast amounts of data, including customer profiles, behaviour patterns, and historical claims information, insurers can identify trends, patterns, and correlations that help them make accurate risk assessments and create personalized insurance solutions. Also, by harnessing the power of data analytics, insurers can identify fraudulent activities, expedite claims settlement, and enhance customer satisfaction by delivering faster, more accurate services.

TECH SAVVY, DIGITAL NATIVE AUDIENCE

There is no denying that India is a young country and this demographic who is 'always connected' expects quick service, convenience, and personalization from his / her insurance provider. The launch of mobile apps and enabling policy renewal over WhatsApp are a few examples of how insurance companies are looking to become more accessible to this customer.

We are all know how WhatsApp helped insurance companies, especially those dealing with health insurance, reach a wider customer base at a time when the world virtually came to a standstill.

Further, customers can renew their break-in motor insurance policy via WhatsApp and also submit their claim, thus, enjoying a 100% paperless claim experience.

This trend is here to stay and besides the traditional routes to customers, insurers are increasingly adopting digital platforms including mobile apps, messaging platforms such as WhatsApp, and online portals to ease their access to policy information, claims filing, and other services.

It is noteworthy to mention that insurance companies are embracing technology to create seamless digital platforms, heavily inspired by the Do-It-Yourself (DIY) trend and empowering customers to explore different coverage options, adjust policy parameters, calculate premiums, receive instant quotes and complete self-assessment of break-in motor insurance policy - all with just a few clicks.

DISRUPTIVE INNOVATIONS

AI-powered chatbots and virtual assistants have become a significant part of the customer service function, providing instant support and claim assistance. Along with virtual assistants, they answer common queries and ensure round-the-clock availability of services.

The advent of generative AI is slated to widen the horizon exponentially. Large language models (LLMs) with an impressive ability to produce text can become the backbone of modern natural language processing (NLP) and bots.

LLM-driven automation can help professionals write and edit policies and contracts that are compliant with regulations, automate tasks such as document review, damage assessment, payment calculation and communication with the claimants, and enable chatbots to provide information, resolve issues and offer personalized recommendations, among others.

Moreover, technological advancements have led to the democratization of vernacular chatbots which enable communication in regional languages, making digital services more accessible and user-friendly for a wider audience beyond metro cities. This is likely to open additional skilled employment opportunities in the insurance sector in the future as well.

Insurtech is driving a digital transformation and reshaping traditional insurance practices, fostering collaboration between incumbents and start-ups, and paving the way for a more tech-driven and customer-centric insurance landscape. While it is enabling personalized offerings, streamlined processes and improved communication channels, it is reshaping the insurance landscape by placing customers at the forefront of service delivery.

PREDICTIVE ANALYTICS FOR RISK MANAGEMENT

Predictive analytics, powered by AI, is playing a crucial role in risk management for insurers in India. By analyzing historical data and identifying potential risks, insurers can proactively mitigate and manage risks before they escalate. This enables insurance companies to optimize their risk portfolios, improve overall financial stability, and enhance their ability to respond effectively to unforeseen events, such as natural disasters or economic downturns.

TELEMATICS IN MOTOR INSURANCE

The adoption of telematics, coupled with AI, has significantly impacted the motor insurance sector in India. Telematics devices, installed in vehicles, collect real-time data on driving behaviour, including speed, acceleration, and braking patterns. AI algorithms analyze this data to assess individual driving habits and calculate personalized premiums based on actual risk. This usage-based insurance model not only promotes safer driving but also allows insurers to offer fairer and more customized pricing to policyholders.

REGULATORY COMPLIANCE AND REPORTING

AI technologies assist insurers in India in navigating the complex landscape of regulatory compliance. By automating data collection, analysis, and reporting processes, AI ensures that insurers can adhere to regulatory requirements seamlessly.

This not only reduces the risk of non-compliance but also allows insurers to allocate resources more efficiently, focusing on innovation and customer-centric initiatives.

IN A NUTSHELL

The integration of AI in the Indian insurance sector marks a transformative phase for the industry. As insurers leverage data-driven insights, automate processes, and enhance customer experiences, the overall efficiency and effectiveness of the insurance ecosystem are significantly improved.

While challenges such as data privacy and ethical considerations must be carefully navigated, the positive impact of AI on risk assessment, underwriting, fraud detection, and customer service is undeniable.

As the insurance sector continues to embrace AI technologies, it is poised for a future where innovation and customer satisfaction converge, fostering a more resilient and adaptive industry landscape in IndiA.

TECHNICAL OUTLOOK

The Nifty experienced a pullback rally in November. The sentiment on Dalal Street was cautious to positive, with buying observed across all sectors.

Looking at the technical set up, the immediate support is at 19,570 provided by 50 - 100 DMA. If it fails to hold this support on a closing basis, a further sell-off could occur, potentially taking the Nifty down to 19,300/19,000.

On the flip side, the Nifty faces strong resistance between 19,870 and 19,940. Once the Nifty manages to trade above the 19,940 level on a closing basis for at least 2-3 trading sessions, we may witness an upward rally towards 20,200 / 20,500 levels.

The daily momentum indicator, RSI is showing strength, indicating the potential for a pull back in the index. The overall market outlook remains positive and some volatility can still be expected. Traders should avoid major short positions and look for opportunities to buy on dips. Any dip towards 19,600 will contribute to the strengthening of the Nifty.

Technically, the Bank Nifty has immediate support at 43,500. A close below 43,500 may extend the fall towards 43,000/42,400. On the flip side, resistance is positioned at 44,000. Beyond that, the Bank Nifty may witness a positive move towards 44,400 - 45,000 levels.

On the Nifty Options front for the December series, the highest Open Interest (OI) build-up is seen near 20,000 and 20,500 Call strikes, while on the Put side, it is observed at 19,500 and 19,000 strikes.

The movement in November has been positive with a huge round of buying in most of the November series.

India VIX, which measures the immediate 30-day volatility in the market, has remained sideways in the range of 10-12.5 for the November series. Going forward, we expect the index to remain positive for the December series.

The Put Call Ratio-Open Interest (PCR-OI) for Nifty Options has been in the range of 0.7-1.4 in November. Going forward, it is expected to remain between 0.7 and 1.5 in December.

The markets are believed to remain bullish in December with supports placed at 19,500 and 19,000 levels, while important resistances will be at 20,000 and 20,500 levels.

OPTIONS STRATEGY

Bull Call Spread

This strategy can be initiated by 'Buying 1 lot 14DEC 20000 CE (₹ 170) and Selling 1 lot 14DEC 20400 CE (₹ 30).' The total outflow of premium is 140 points, which is also the maximum loss. A SL can be set at 100, which is a 40-point loss from the total premium. The maximum gain is 260 points. With the current options OI positions for NIFTY, it seems the index may witness good buying, which might take the Nifty towards resistance levels, leading to profits in this strategY.

Nifty Chart

MUTUAL FUND BLACKBOARD

Large Cap Funds

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		1 Year	3 Years	5 Years	7 Years	10 Years	
Invesco India Largecap Fund - Growth	50.4	14.0	16.8	14.0	13.6	14.2	786
UTI Mastershare Unit Scheme - Growth	216.9	9.9	15.5	13.7	13.8	14.1	11,458
Canara Robeco Bluechip Equity Fund - Growth	47.0	11.4	15.1	15.4	15.6	14.6	10,182
Kotak Bluechip Fund - Reg - Growth	430.2	12.8	16.6	15.0	14.2	14.6	6,406
Nifty 100 TRI	26,631.9	9.1	16.5	14.1	15.0	14.3	--

Mid Cap Funds

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		1 Year	3 Years	5 Years	7 Years	10 Years	
Tata Mid Cap Growth Fund - Reg - Growth	323.4	31.5	25.8	20.7	18.4	21.1	2,522
Edelweiss Mid Cap Fund - Growth	67.1	27.7	28.8	21.8	19.3	22.4	3,793
Mirae Asset Midcap Fund - Reg - Growth	26.7	24.7	27.8	--	--	--	11,784
Nippon India Growth Fund - Reg - Growth	2,898.8	36.1	31.6	22.8	19.9	20.3	19,082
Kotak Emerging Equity Fund - Reg - Growth	94.5	24.5	27.4	21.3	18.5	23.0	33,700
Nifty Midcap 150 TRI	19,606.0	33.9	30.5	21.4	20.1	21.7	--

Small Cap Funds

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		1 Year	3 Years	5 Years	7 Years	10 Years	
Kotak Small Cap Fund - Reg - Growth	205.5	26.3	32.3	24.9	20.0	22.8	12,163
Edelweiss Small Cap Fund - Reg - Growth	34.0	34.4	35.9	--	--	--	2,473
Nippon India Small Cap Fund - Reg - Growth	128.4	39.0	41.7	26.6	24.6	28.2	37,319
ICICI Prudential Smallcap Fund - Growth	69.9	29.6	35.6	24.8	19.0	18.5	6,003
Union Small Cap Fund - Reg - Growth	40.8	36.4	35.2	24.8	19.8	--	1,139
Nifty Smallcap 250 TRI	16,338.0	39.9	35.7	21.5	17.9	20.5	--

Large & Mid Cap Funds

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		1 Year	3 Years	5 Years	7 Years	10 Years	
Tata Large & Mid Cap Fund - Reg - Growth	411.0	14.9	20.1	17.0	15.2	16.2	5,248
Canara Robeco Emerging Equities - Growth	185.7	13.4	18.4	16.4	16.8	22.0	17,563
Edelweiss Large & Mid Cap Fund - Growth	64.3	18.6	21.4	17.2	16.7	16.3	2,221
Kotak Equity Opportunities Fund - Reg - Growth	247.9	19.8	21.4	17.9	16.3	17.4	15,261
Mahindra Manulife Large & Mid Cap Fund - Reg -	21.1	21.9	24.9	--	--	--	1,416
NIFTY Large Midcap 250 TRI	15,469.5	21.1	23.4	17.8	17.6	18.1	--

Multicap Funds

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		1 Year	3 Years	5 Years	7 Years	10 Years	
Mahindra Manulife Multi Cap Fund - Reg - Growth	26.4	25.1	27.5	21.5	--	--	2,205
HDFC Multi Cap Fund - Reg - Growth	14.2	30.2	--	--	--	--	8,962
Kotak Multicap Fund - Reg - Growth	13.4	27.0	--	--	--	--	6,355
Nippon India Multi Cap Fund - Reg - Growth	214.0	29.1	33.4	18.2	17.7	17.8	20,916
S&P BSE 500 TRI	35,096.0	14.7	20.0	16.0	16.1	15.7	--

FlexiCap Funds

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		1 Year	3 Years	5 Years	7 Years	10 Years	
Canara Robeco Flexi Cap Fund - Growth	254.8	12.4	16.5	15.7	16.3	15.1	10,084
Mirae Asset Flexi Cap Fund - Reg - Growth	11.8	--	--	--	--	--	1,222
UTI Flexi Cap Fund - Growth	259.8	9.2	12.8	14.6	14.8	15.2	25,452
Union Flexi Cap Fund - Growth	40.3	18.9	20.5	17.4	15.5	14.0	1,621
Parag Parikh Flexi Cap Fund - Reg - Growth	61.3	--	--	--	--	--	44,038
S&P BSE 500 TRI	35,096.0	14.7	20.0	16.0	16.1	15.7	--

Focused Funds

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		1 Year	3 Years	5 Years	7 Years	10 Years	
HDFC Focused 30 Fund - Growth	159.0	19.1	29.4	16.8	14.9	16.1	6,942
Nippon India Focused Equity Fund - Reg - Growth	95.3	16.1	23.8	17.0	15.4	19.7	6,903
ICICI Prudential Focused Equity Fund - Ret - Growth	62.0	18.9	23.5	16.4	14.9	14.8	5,589
Mahindra Manulife Focused Fund - Reg - Growth	19.1	17.4	24.0	--	--	--	862
S&P BSE 500 TRI	35,096.0	14.7	20.0	16.0	16.1	15.7	--

Dividend Yield Funds

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		1 Year	3 Years	5 Years	7 Years	10 Years	
ICICI Prudential Dividend Yield Equity Fund - Reg	36.6	25.5	31.7	18.0	16.0	--	2,665
Sundaram Dividend Yield Fund - Growth	105.3	20.1	20.6	15.6	16.4	16.3	596
UTI Dividend Yield Fund - Growth	125.8	22.9	21.1	15.5	14.9	14.5	3,183
S&P BSE 500 TRI	35,096.0	14.7	20.0	16.0	16.1	15.7	--

Contra/Value Funds

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		1 Year	3 Years	5 Years	7 Years	10 Years	
Bandhan Sterling Value Fund - Reg - Growth	113.0	23.1	31.5	17.7	18.1	18.1	6,672
SBI Contra Fund - Growth	286.4	26.3	34.1	22.6	18.3	18.0	16,667
Nippon India Value Fund - Reg - Growth	160.5	25.3	26.1	18.3	17.5	18.1	5,639
S&P BSE 500 TRI	35,096.0	14.7	20.0	16.0	16.1	15.7	--

ELSS Funds

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		1 Year	3 Years	5 Years	7 Years	10 Years	
UTI Long Term Equity Fund (Tax Saving) - Growth	163.3	13.8	17.1	15.1	14.1	14.5	3178
Canara Robeco Equity Tax Saver Fund - Growth	133.3	12.2	19.0	17.6	16.8	16.4	6,042
Kotak Tax Saver Fund - Reg - Growth	87.7	15.9	20.8	16.9	15.7	17.3	4,122
Mahindra Manulife ELSS Fund - Reg - Growth	22.3	15.4	21.8	15.4	12.2	--	659
Parag Parikh Tax Saver Fund - Reg - Growth	23.8	17.1	22.6	--	--	--	2,138
Tata India Tax Savings Fund - Reg - Growth	33.7	13.3	18.8	15.4	15.3	--	3,478
S&P BSE 200 TRI	11,015.8	12.5	18.8	15.5	15.9	15.3	--

Thematic / Sector Funds

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		1 Year	3 Years	5 Years	7 Years	10 Years	
Mirae Asset Great Consumer Fund - Growth	73.5	24.4	24.1	17.5	18.6	17.7	2,644
ICICI Prudential Banking and Financial Services Fund	100.0	12.5	18.1	11.5	13.1	17.1	6,740
Nippon India Pharma Fund - Reg - Growth	373.3	31.4	17.7	19.4	15.3	17.2	5,539
Quant Quantamental Fund - Reg - Growth	17.4	29.9	--	--	--	--	1,094
Tata Digital India Fund - Reg - Growth	38	17.3	23.3	23.1	23.7	--	7904
S&P BSE 500 TRI	35,096.0	14.7	20.0	16.0	16.1	15.7	--

BEYOND NUMBERS

Arbitrage Funds

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		3 Months	6 Months	1 Year	2 Years	3 Years	
Bandhan Arbitrage Fund - Reg - Growth	29.0	6.8	6.9	7.2	5.4	4.8	4,096
Kotak Equity Arbitrage Fund - Reg - Growth	33.3	7.2	7.3	7.5	5.7	5.1	28,958
Tata Arbitrage Fund - Reg - Growth	12.8	7.0	6.9	7.1	5.3	4.8	7,682
Invesco India Arbitrage Fund - Growth	28.5	7.1	7.2	7.4	6.0	5.2	8,678
Edelweiss Arbitrage Fund - Reg - Growth	17.3	6.9	7.1	7.2	5.5	5.0	7,036

Equity Savings Funds

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		1 Year	3 Years	5 Years	7 Years	10 Years	
Edelweiss Equity Savings Fund - Reg - Growth	20.8	10.2	9.5	9.2	9.2	--	292
HDFC Equity Savings Fund - Growth	55.3	9.8	12.5	9.5	9.2	9.7	3,167
Kotak Equity Savings Fund - Reg - Growth	21.6	11.7	10.5	9.6	9.4	--	3,292
NIFTY 50 Hybrid Composite Debt 65:35 Index	16649.0	9.1	12.6	12.7	12.6	12.3	--

Dynamic Asset Allocation Funds

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		1 Year	3 Years	5 Years	7 Years	10 Years	
Kotak Balanced Advantage Fund - Reg - Growth	16.6	11.6	10.6	11.0	--	--	14,740
Nippon India Balanced Advantage Fund - Reg - Growth	140.4	10.4	12.4	10.4	11.3	12.4	6,958
Tata Balanced Advantage Fund - Reg - Growth	17.0	11.2	12.6	--	--	--	7,606
Edelweiss Balanced Advantage Fund - Growth	40.8	11.2	12.8	12.7	12.4	11.9	9,338
Union Balanced Advantage Fund - Reg - Growth	16.7	9.2	8.4	10.7	--	--	1,563
NIFTY 50 Hybrid Composite Debt 65:35 Index	16,649.0	9.1	12.6	12.7	12.6	12.3	--

Hybrid Aggressive Funds

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		1 Year	3 Years	5 Years	7 Years	10 Years	
Canara Robeco Equity Hybrid Fund - Growth	281.0	12.0	13.9	13.8	13.3	14.9	8,823
Kotak Equity Hybrid Fund - Growth	47.2	13.4	17.8	15.6	13.2	--	4,252
Mirae Asset Hybrid - Equity Fund - Reg - Growth	25.2	12.0	14.5	12.8	13.2	--	7,611
NIFTY 50 Hybrid Composite Debt 65:35 Index	16,649.0	9.1	12.6	12.7	12.6	12.3	--

Multi Asset Allocation Funds

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		1 Year	3 Years	5 Years	7 Years	10 Years	
HDFC Multi - Asset Fund - Growth	55.8	12.6	14.2	13.2	10.5	10.9	2,001
Nippon India Multi Asset Fund - Reg - Growth	15.7	17.3	14.7	--	--	--	1,757
Tata Multi Asset Opportunities Fund - Reg - Growth	18.2	11.9	15.8	--	--	--	1,929
NIFTY 50 Hybrid Composite Debt 65:35 Index	16,649.0	9.1	12.6	12.7	12.6	12.3	--

Gold Funds

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		1 Year	3 Years	5 Years	7 Years	10 Years	
HDFC Gold Fund - Growth	18.8	15.5	5.4	13.2	9.7	5.8	1,641
Kotak Gold Fund - Reg - Growth	24.3	15.4	5.5	13.4	9.7	5.7	1,550
Nippon India Gold Savings Fund - Reg - Growth	24.1	15.4	5.4	13.1	9.5	5.6	1,557
Prices of Gold	61,043.0	16.9	6.7	14.6	11.0	7.1	--

Overnight Funds

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		2 Weeks	1 Month	3 Months	1 Year	YTM	
Bandhan Overnight Fund - Reg - Growth	1,240.2	6.6	6.6	6.6	6.5	6.76	1,587
Tata Overnight Fund - Reg - Growth	1,227.2	6.6	6.6	6.6	6.5	6.77	4,655
Nippon India Overnight Fund - Reg - Growth	124.9	6.6	6.6	6.6	6.5	6.80	8,464

Liquid Funds

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		2 Weeks	1 Month	3 Months	1 Year	YTM	
Aditya Birla Sun Life Liquid Fund - Reg - Growth	375.8	6.8	6.9	6.8	7.0	7.32	38,715
Mirae Asset Cash Management Fund - Growth	2,445.9	6.8	6.9	6.8	7.0	7.17	10,114
Kotak Liquid Fund - Reg - Growth	4,716.3	6.8	6.8	6.8	6.9	7.19	31,169
Nippon India Liquid Fund - Reg - Growth	5,693.3	6.7	6.8	6.8	6.9	7.30	22,686
Mahindra Manulife Liquid Fund - Reg - Growth	1,517.7	6.9	6.9	6.8	7.0	7.19	744

Ultra Short Funds

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		3 Months	6 Months	1 Year	3 Years	YTM	
HDFC Ultra Short Term Fund - Reg - Growth	13.5	6.5	6.6	6.9	4.9	7.57	12,997
ICICI Prudential Ultra Short Term Fund - Growth	24.7	6.5	6.6	6.9	5.0	7.76	12,413
Kotak Savings Fund - Reg - Growth	38.3	6.3	6.4	6.8	4.7	7.55	13,277

Money Market Funds

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		3 Months	6 Months	1 Year	3 Years	YTM	
HDFC Money Market Fund - Growth	5,067.9	6.8	6.8	7.3	5.1	7.54	17,621
Tata Money Market Fund - Reg - Growth	4,183.3	6.9	6.9	7.4	5.2	7.57	15,016

Low Duration Funds

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		3 Months	6 Months	1 Year	3 Years	YTM	
HDFC Low Duration Fund - Growth	51.3	6.1	6.6	7.0	4.9	7.89	16,097
ICICI Prudential Savings Fund - Reg - Growth	480.0	6.6	7.3	7.5	5.3	7.79	22,540
Kotak Low Duration Fund - Std - Growth	2,977.6	6.0	6.1	6.6	4.6	7.85	11,206

Floater Funds

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		3 Months	6 Months	1 Year	3 Years	YTM	
Kotak Floating Rate Fund - Reg - Growth	1,326.2	6.5	6.8	7.1	4.9	7.94	5,490
Tata Floating Rate Fund - Reg - Growth	11.3	6.5	6.5	6.8	--	8.01	270

Short Term Funds

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		3 Months	6 Months	1 Year	3 Years	YTM	
HDFC Short Term Debt Fund - Growth	28.0	6.0	5.7	6.9	4.8	7.86	12,302
HSBC Short Duration Fund - Reg - Growth	23.3	5.7	4.9	6.2	3.9	7.66	3,373
ICICI Prudential Short Term Fund - Growth	52.9	6.7	6.3	7.1	5.2	7.97	18,709

Corporate Bond Fund

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		3 Months	6 Months	1 Year	3 Years	YTM	
ICICI Prudential Corporate Bond Fund - Reg - Growth	26.2	6.4	6.7	7.3	5.3	7.95	24,508
HDFC Corporate Bond Fund - Growth	28.5	6.1	5.9	7.1	4.8	7.83	26,809
Kotak Corporate Bond Fund - Std - Growth	3,302.1	6.1	5.5	6.6	4.7	7.91	10,656

Dynamic Bond Funds

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		3 Months	6 Months	1 Year	3 Years	YTM	
ICICI Prudential All Seasons Bond Fund - Growth	32.3	6.7	6.0	7.2	5.4	8.10	11,427
Nippon India Dynamic Bond Fund - Reg - Growth	32.3	4.1	3.3	7.0	3.8	7.79	4,429
Kotak Dynamic Bond Fund - Reg - Growth	32.6	5.6	4.5	6.0	3.9	7.93	2,446

Medium Duration Funds

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		3 Months	6 Months	1 Year	3 Years	YTM	
ICICI Prudential Medium Term Bond Fund - Growth	39.2	6.1	5.3	6.8	5.4	8.35	6,452
HDFC Medium Term Debt Fund - Growth	49.4	5.4	4.7	6.5	4.8	8.09	4,236
SBI Magnum Medium Duration Fund - Growth	44.9	5.8	5.1	7.1	4.8	8.11	6,970

Long duration Funds

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		3 Months	6 Months	1 Year	3 Years	YTM	
Nippon India Nivesh Lakshya Fund - Reg - Growth	15.3	4.4	0.3	7.1	3.7	7.61	6397

Gilt Funds

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		3 Months	6 Months	1 Year	3 Years	YTM	
Kotak Gilt Fund - Growth	85.0	5.0	4.2	6.4	3.9	7.81	2,882

Gilt Fund With 10 Year Constant Duration

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		3 Months	6 Months	1 Year	3 Years	YTM	
ICICI Prudential Constant Maturity Gilt Fund - Reg	21.2	4.5	2.5	7.0	3.6	7.49	2,273

Credit Risk Fund

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		3 Months	6 Months	1 Year	3 Years	YTM	
ICICI Prudential Credit Risk Fund - Growth	27.7	7.1	6.7	7.2	6.2	8.68	7,424
HDFC Credit Risk Debt Fund - Reg - Growth	21.1	5.6	5.2	6.5	5.8	8.49	8,302
SBI Credit Risk Fund - Growth	40.1	6.3	5.9	8.2	5.8	8.41	2,689

Banking & PSU Bond Funds

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		3 Months	6 Months	1 Year	3 Years	YTM	
Edelweiss Banking & PSU Debt Fund - Reg - Growth	21.6	5.8	3.6	6.4	4.4	7.6	327
HSBC Banking and PSU Debt Fund - Growth	21.4	5.7	4.7	6.3	3.5	7.66	4489

Disclaimer : Mutual Fund Investments are subject to market risks. Please read the offer document carefully before investing. Past performance is no guarantee of future performance. Returns are of Growth option of Regular plans. Returns which are below 1 year period are Annualized Returns.

Source: - ICRA MFI, NAV as on 22nd November, 2023

No-Cost EMIs

BREAKING LIQUIDITY BARRIERS

A no-cost EMI is ideal for those urgently needing a product but lacking liquidity

Premiumization is gaining traction in India. A young population with rising aspirations, growing urbanization, changing lifestyles, and a willingness to leverage - that is, take a loan to fulfill one's desires - are leading to an increase in demand for premium products.

Retailers, merchants and e-commerce platforms are capitalizing on this changing trend by partnering with financiers such as banks to provide consumers access to finance, enabling them to fulfill their desires and even upgrade to higher-value products.

While sales of entry-level mobile phones and laptops in India have been declining, those of high-end mobile phones and laptops among retail consumers have been on the rise.

Experts believe that one of the key reasons for such divergent trends is access to finance, empowering retail customers to purchase high-value aspirational products that might be beyond their reach if upfront full payments were required.

While the financing option is definitely aiding sales of premium products, it is also encouraging consumers across the spectrum to buy products they would have otherwise avoided if the full payment had to be made at the time of purchase.

Among the available financing options, no-cost EMIs stand out, especially during the festive season when shopping is at its peak.

WHAT IS A NO-COST EMI

A no-cost EMI is a payment option offered by merchants, retailers or e-commerce platforms in collaboration with financiers or lending institutions. In this arrangement, no interest is payable on the customer's borrowing which essentially covers the product price. The repayment tenure can range from three months and twenty-four months in equated monthly installments (EMIs).

As a general business practice, if a loan is taken, the bank / financial institution will charge interest on the amount because they are in the business of lending. This is contrary to what is marketed by providers of no-cost EMIs, who state that the produce price will be divided by the agreed tenure of the loan to determine the EMI to be paid – effectively akin to a zero-interest product. Thus, if you buy a television priced at ₹30,000 and opt for a 12-month no-cost EMI, the monthly payment charged to your card would be ₹2,500.

The rationale behind such a product offering is to enable customers to access a product that would be beyond the means if full payment were required upfront. By spreading the product cost over a period of time in the form of equal EMIs, it enables the customers to manage cash flows, making the purchase tenable without needing to live beyond their means.

It is a win-win situation for all parties involved here - the banks, the merchants / retailers / e-commerce platforms, and the customers. The bank will be able to expand its loan book, the retailer will be able to generate revenues and benefit from faster inventory turnover, and the customer will be able to take home the product.

OPERATING MECHANISM

• **Partnership:** Retailers / merchants / e-commerce platforms will partner with banks or financial institutions to provide a no-cost EMI option to their customers.

• **Eligible Products:** Not all products will be eligible for the no-cost EMI option. There may be a minimum ticket size required for the no-cost EMI option to be accessible. Merchants will clearly specify which products will come under this option. Generally, high ticket-size items such as furniture, gadgets, electronic items, or travel packages will qualify.

• **Option Selection:** At the time of the purchase, the customer will have to opt for the no-cost EMI option. In addition to this, the customer will have to select the EMI tenure, ranging from three months to two years.

To avail of this facility, the customer needs to have a debit or credit card from the bank / financial institution with which the retailer / e-commerce platform has a tie-up. This ensures that the billing of the EMIs can be done appropriately and promptly.

The bank / financial institution will assess the customer's creditworthiness in real-time and instantly approve the request for a no-cost EMI. The total purchase amount will be divided by the loan tenure to determine the monthly EMI, with no interest cost applicable.

• **Billing:** The EMI amount will be billed to the customer's credit card monthly or directly debited from the account every month for the selected tenure. If the payment of the EMI is not made on time, interest will be levied by the financial institution, making it essential to read the terms and conditions carefully.

IS IT TOO GOOD TO BE TRUE?

The financier is in the business of lending, and the underlying driver for any collaboration or partnership with the retailer / e-commerce platform is economics. The financier pays for the funds borrowed to lend to the customer (the bank provides interest to customers on their savings deposits / fixed deposits), and thus, recovering costs and earning profits is essential to make the business deal worthwhile. There is no such thing as a free ride, and hence, there is more than meets the eye when it comes to no-cost EMIs.

There are two ways by which no-cost EMIs conceal the interest charged:

• **Built-In Cost:** The interest cost could be built into the product price, and another way is by cutting back on discounts. No discounts or marginal discounts will be offered on products sold under the no-cost EMI option.

Thus, discounts generally provided if the entire payment were to be made upfront are not given and essentially go towards interest in the no-cost EMI option.

The discount amount is, therefore, camouflaged as part of the product price when it is the interest cost, which the customer is paying indirectly without knowledge of the same as it is not explicitly stated. The retailer / e-commerce platform will share this discount amount with the financier.

• **Fees / Charges:** The processing fee is another way used to pass on the interest cost to the customers, not terming it so.

ADVANTAGES

• **Affordability:** The availability of a zero-cost EMI option empowers the buyer to purchase a product even if his current cash flow situation does not permit it by spreading the cost over several months.

Thus, the option to pay via an EMI without explicitly stated interest charges over an extended period proves advantageous, allowing customers to obtain the desired product immediately and subsequently manage the payments in harmony with their monthly cash inflows, which a lump sum payment requirement would have made impossible.

• **Managing Finances:** The EMI option, across the tenure selected by the customer, allows for planning cash flows as there is visibility on the monthly outflow that will go towards the payment of the product purchased on EMI.

• **Build A Credit Score:** Payment of the EMIs on time helps to build one's credit score. Opting for a zero-cost EMI for a relatively large-ticket purchase such as electronic items allows one to build a good credit history, which is evaluated by lending institutions when loans are disbursed.

• **Flexible Repayment Tenures:** No-cost EMIs tend to have tenures ranging from three months to two years. At the time of opting for a zero-cost EMI, the customer can choose the repayment tenure of the loan, providing the flexibility to select it based on the expected cash flow situation.

DISADVANTAGES

• **Limited Products To Choose From:** The no-cost EMI option may not be available on all products, limiting consumers' choices. Products only above a particular ticket size may be offered under the no-cost EMI umbrella.

• **Credit Checks:** Before the no-cost EMIs are approved, the financier will run a credit check, and hence, a good credit score may be a prerequisite.

• **Overall Cost:** If the customer decides to cancel the EMI before maturity, banks / financial institutions usually impose foreclosure charges. If the EMI payment is not made in time, customers are liable to pay interest charges.

IN A NUTSHELL

No-cost EMIs can be a good option if a customer needs to make an essential purchase and prefers to spread the cost over time because his/her current cash flow situation so demands.

However, it is vital to read the terms carefully, consider the total cost, and ensure that the monthly EMI payment schedule can be comfortably met without straining the household budget. The drawback is that this scheme could lure customers into buying products of a higher value than their budget permits merely because of the time available to make the payment, exposing the customer to the risk of living beyond their means. The customer needs to be cognizant of the fact that the total cost of the product will still be borne by them, but the impact on the wallet is measured, due to the option to pay for the same over an extended period.

While the financing option is marketed as zero interest offering, lack of discounts and processing costs are surrogate ways of charging customer's interest. Thus, if one has the cash flow, it is better to purchase the product outright and avail of discounts rather than having to go through the rigmarole of making payments in time.

In the event that one needs a product on a priority basis but does not have the liquidity to fund it, the no-cost EMI option can come to the rescue as it splits the purchase cost over a longer tenure, making it easier to manage cash flowS.

IMPORTANT JARGON

RBI TIGHTENS NORMS FOR UNSECURED RETAIL LOANS

On 16th Nov ’23, the Reserve Bank of India (RBI) raised risk weights on certain unsecured retail loans of banks and non-bank financial companies (NBFCs). The RBI has also increased the risk weights of loans given by banks to NBFCs.

While the new rules are prudent and beneficial for the sector’s overall health, there could be some adverse consequences from the new guidelines like lower credit growth, higher borrowing costs, and excess capital requirements.

Q. What Has The RBI Announced?

The Reserve Bank of India has increased risk weights for some categories of loans:
1) consumer loans of commercial banks and NBFCs
2) credit card receivables of banks and NBFCs
3) bank credit to NBFCs
These unsecured loans, which lack collateral, such as a home, among others, will now attract a risk weight of 125%, compared to the previous 100%.

For credit cards, the risk weights have been increased by up to 50 basis points. The new rules announced by the Reserve Bank mostly apply to personal loans and do not extend to housing loans, education loans, vehicle loans, and loans secured by gold and gold jewellery.

Q. What Are Risk Weights?

Every loan carries inherent risk. Accordingly, the RBI has assigned risk weights to every loan forwarded by a lending institution. The RBI mandates lenders to set aside a certain amount of capital based on the risk weights assigned to the loan.

While the exact computation of risk involves numerous parameters, it is sufficient to understand that the riskier a loan, the higher the assigned risk weight. Consequently, the higher the risk weight, the more capital the lending institute is required to set aside.

Q. What Will Be The Impact On The Lending Institutes’

Capital Adequacy Ratio (CAR) After The New Rules?

The RBI mandates all lending institutes to set aside capital against their loan books, which can be utilized during times of crises.

As mentioned earlier, due to increased risk weights, lending institutes will now need to set aside more capital than before.

It is estimated that the banking industry will likely require ₹ 84,000 crore of excess capital due to the new rules.

According to S&P Global Ratings, these new regulations will lead to a decline in the capital adequacy ratio for the banking industry, dropping from 14.9% to 14.3%, unless lenders infuse more capital. Currently, the sector's overall capitalization is at historically high levels.

Q. Why Were The New Rules Announced? Is There Anything Wrong With The Sector?

Not really. With the introduction of new rules, the RBI aims to control potential major asset quality risks for lenders in the future.

In recent years, the unsecured loan portfolio of banks, NBFCs, and financial technology (fintech) companies has been growing aggressively.

As per one estimate, in the past two years, personal loans have grown by around 24% and credit card loans grew by 28%, in comparison to the overall banking sector's credit growth of around 15%. As of September '23, the overall banking sector's exposure to unsecured retail loans stands at approximately 10% of total loans.

Delinquencies on such unsecured personal loans have been on the rise in recent months, with small-ticket personal loans of less than ₹ 50,000 being particularly at higher risk.

Q. How Will The Lending Institutes React To The Announcement?

Lending institutes, on one hand, will attempt to reprice their loans by increasing lending rates, implying that the cost of borrowing will go up for their customers. Lenders will become more judicious in extending loans in the future. Income generated through this route will offset any additional capital requirements.

On the other hand, the new rules will prompt some lenders with weaker capital adequacy ratios to raise capital.

Generally, public sector banks have lower capital adequacy ratios than large private sector banks. An institute with a higher ratio is rewarded by investors and creditors in the markets. They can borrow funds, which are the raw material for banks, at lower costs.

Q. Why Are The New Rules A Double Whammy For The NBFC Sector?

On one hand, increased risk weights would necessitate higher capital requirements for NBFCs. On the other hand, the regulator has also increased risk weights on banks' exposure to NBFCs.

While the former will impact loan growth, the latter will lead to an increase in the cost of funds as banks would seek to reduce their lending to the NBFC sector; otherwise, banks will have to set aside more capital. Banks' exposure to NBFCs is 7.4% of total loans.

Bank borrowings remain a principal source of funding for NBFCs, constituting around 40% of their total borrowings.

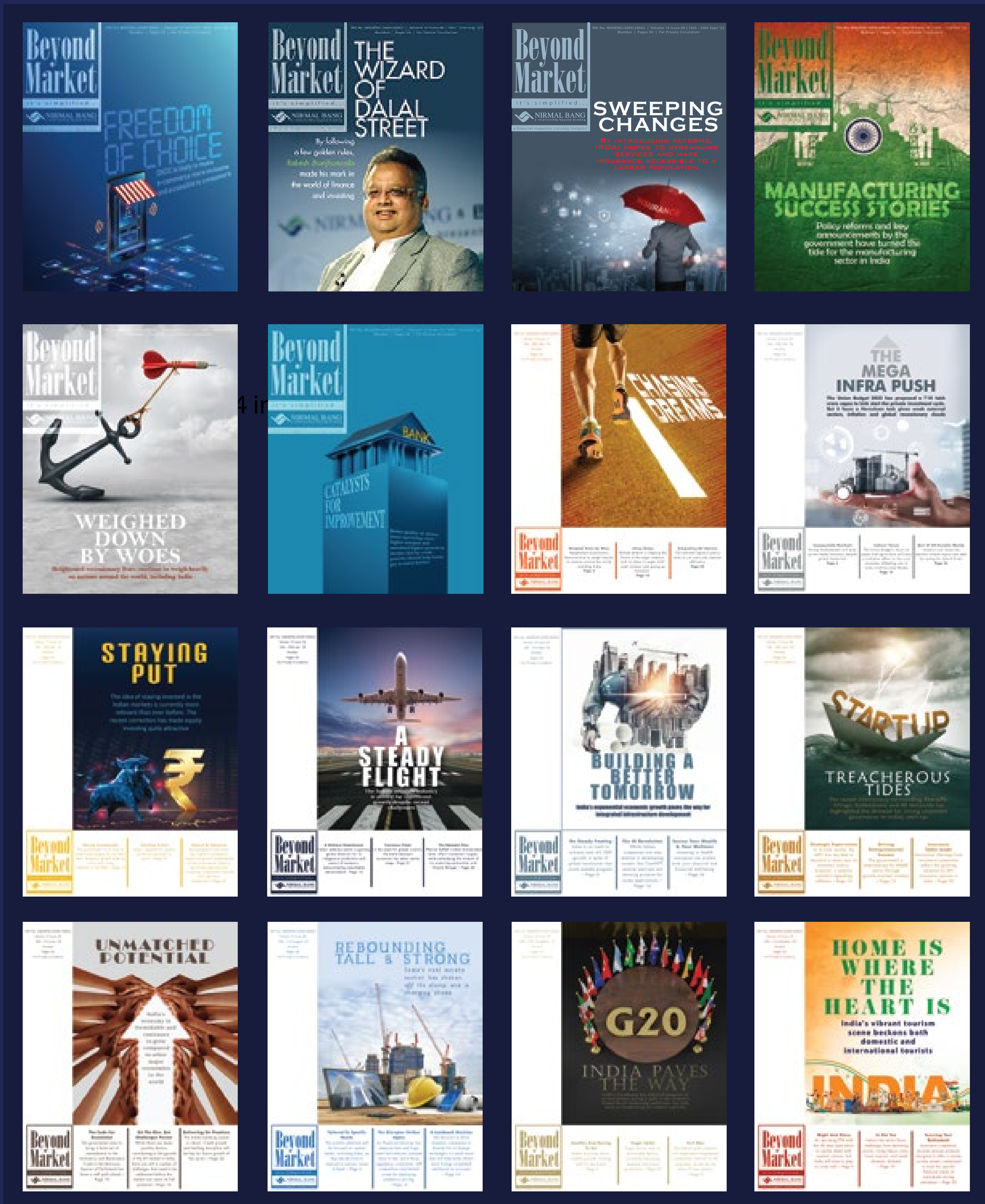
NBFCs will have to borrow from the debt markets, which are more expensive than the term loans from commercial banks.

Q. Overall, What Do The Rules Mean For The Sector?

The Indian banking system continues to be resilient, backed by improved asset quality, stable credit growth, and robust earnings growth. The credit growth is broad-based, and even the financial indicators of non-banking financial companies are good.

However, following the new guidelines, the negative impact will be felt more in the NBFC and fintech space, leading to a slowdown in consumer credit growth. The new guidelines will also increase their funding costs.

From a stability standpoint, these new guidelines will ensure lower systemic risk in the futur**E**.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