

# THE TRUMP CARD

While the return of Donald Trump as US President may create new challenges, it could also present opportunities, particularly as the US seeks alternatives to China



## Beyond Market

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### Steady But Shaky

IMF's latest World Economic Outlook forecasts modest 3.2% global growth, with the US thriving while Europe grapples with inflation

- Page 10

### Taking A Firm Stance

RBI's action against select NBFCs aims to curb the risks of 'growth at any cost' before it jeopardizes the entire system – Page 14

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**Tushita Nigam**  
Editor

## A TRUMP-ETING WIN

The month of November was abuzz with action, largely driven by the US Presidential elections. Securing a second term, President-elect Donald Trump is now at the centre of global attention, with the world closely watching what lies ahead. In this context, where does India stand? Will the Indian economy and India Inc benefit from potential opportunities, or will they face challenges? Read about the possible implications of this significant development in our cover story.

Apart from this, the issue covers several pertinent topics, including the International Monetary Fund's latest economic forecast and its implications, the Reserve Bank of India's measures to curb questionable practices among certain NBFCs to safeguard customer interests and strengthen sectoral health, and the current state of India's steel industry, along with its future prospects as China continues to dominate global market share. We have also explored the impact of piracy on the entertainment industry, the potential for tax reductions on health and life insurance policies, and the changing borrowing and saving habits of the younger middle-class population.

In addition to these, the article on the recently introduced NPS Vatsalya Yojana presents an opportunity for parents or guardians to start saving early for their children's retirement. While the scheme has its limitations, early savings have consistently proven to be an effective strategy for building a sizeable corpus. Learn more about this initiative in the Beyond Basics section.

Lastly, the Beyond Learning segment digs deeper into American investor Howard Marks' latest memo, which stresses the enduring importance of adhering to economic fundamentals, even amid uncertain times. Marks stresses on the fact that, regardless of market turbulence, sticking to the basics remains essential for making sound investment decisions, a principle explored further in our article.



**"In the coming days, the Indian stock markets look good."**

**Nifty Futures: 24,310**

(Last Traded Price As On 27th Nov '24)



**U**S President-elect Donald Trump has raised expectations of policy changes, especially regarding a cut in corporate tax rate, and tariff hikes on import of goods from various countries to the US.

Meanwhile, last month's high inflation figure has pushed back expectations of an interest rate cut in India from December '24 to February '25.

In the coming days, the Indian stock markets look good. The Nifty Futures has support at 24,100 and 23,900 levels. On the upper side, it is likely to touch levels of 24,700 and 25,000, thereafter.

Going forward, traders and investors should monitor the RBI's directives on interest rate cuts, as well as the potential pick-up in consumer demand and government spending in December.

*Dalit Bang*

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# THE TRUMP CARD

While the return of Donald Trump as US President may create new challenges, it could also present opportunities, particularly as the US seeks alternatives to China



In *The Day of the Jackal*, a 1971 racy political thriller by Frederick Forsyth, a sniper takes perfect aim at French President Charles de Gaulle. However, as the shot is fired, the leader bends slightly to honour a war veteran, narrowly escaping death.

In an eerie coincidence, over 50 years after the novel was published, Donald Trump faced an identical situation in July '24. Trump turned his head just as the assailant fired and avoided a fatal shot. Reports suggest Trump didn't immediately react to the pain or bleeding from his ear and instead continued to shout, "Fight, fight, fight!" before being escorted to safety.

This defiance after the attack marked the turning point of the US Presidential polls and is an indicator of the disruption that the maverick billionaire may wreck on the world for the next four years. What Trump does next will be watched by the world, notably in Iran, Gaza and Ukraine, where the US President's action may mean a difference between life and death for many.

India, too, would be touched by his policies, be it trade or immigration.

A look back at Trump's first term reveals significant developments in India-US relations. His tenure, characterized by a mix of co-operation and controversy, left a lasting imprint on bilateral ties, particularly in defence, energy, and strategic areas.

During his term, India's annual defence procurement from the US rose to \$18 billion by 2019, with India gaining Tier I status in the Strategic Trade Authorization framework. Energy partnership between the two countries flourished under Trump, with the launch of the bilateral Strategic Energy Partnership in 2018. This led to India beginning crude oil and LNG imports from the US, reaching a value of \$6.7 billion within two years, positioning the US as India's sixth-largest source of hydrocarbon imports.

The US's share of India's FDI increased from 6% at the start of his presidency to 8% by FY21, making the US India's third-largest FDI source. Investments during Trump's four years were 2.5 times higher than those under Barack Obama's last term.

However, challenges persisted. Trump's focus on reducing India's

tariffs, especially on Harley Davidson motorcycles, became a recurring issue.

Immigration policies, particularly concerning H1-B visas for skilled professionals, created friction.

So, how would India be impacted by Trump 2.0?

## INDIAN IT COMPANIES

During Trump's first term, H-1B visa rejection rates surged from an average of 4.6% before 2016 to 15.4%, prompting IT firms to reduce dependence on the visa programme.

Indian IT companies shifted focus toward localized hiring, with H-1B applications dropping by 51% from their FY17 peak. While the incoming administration may favour skilled immigration, the overall impact is expected to be neutral to marginally positive.

Trump's Tax Cuts and Jobs Act (TCJA) of 2017 reduced the federal corporate tax rate from 35% to 21%, benefitting industries such as BFSI, IT, energy, and industrials.

However, gains from these tax cuts were partially offset by trade wars and tariffs that raised manufacturing costs and disrupted supply chains. Key sectors like semi-conductors, automotive, steel, and retail faced elevated costs, dampening the positive impact of the tax reforms.

India's top five IT companies posted an average revenue growth of 7.5% during Trump's

first term (2016-2020), slightly higher than 7.9% during the first three years. However, concerns persist about potential headwinds in outsourcing.

With over 80% of Indian IT export earnings derived from the US, any restrictions on outsourcing could significantly impact the sector.

India's services exports have doubled from \$160 billion to \$339.6 billion, and the country aims to reach \$1 trillion by 2030. However, Trump's stance on outsourcing, including promises to end the practice, could pose challenges for India's multi-billion-dollar IT industry.

## TRUMP AND MODI

Despite the public warmth shared between Prime Minister Narendra Modi and Donald Trump, including high-profile rallies in Houston (2019) and Gujarat (2020), their alliance could be tested.

Trump's unpredictability and transactional approach to foreign policy raise questions about the future trajectory of India-US partnerships in defence, technology, and semiconductors.

While the US and India have strengthened ties through initiatives like the Quad alliance, Trump's return introduces uncertainties about the consistency of this cooperation.

The focus on reshoring jobs and tough immigration stances could redefine the dynamics of the Modi-Trump relationship

and broader India-US ties.

## GLOBAL ASSETS

The US dollar is expected to remain firm, reinforced by Trump's reiteration of its supremacy. This strength poses risks to emerging market currencies, including the Indian rupee, which could face further strain from weakening corporate earnings and foreign investor outflows.

Tariffs on Mexico have already weakened the peso, and similar pressures could impact other emerging markets.

US equities, particularly mega-cap tech, are expected to rally, with broader participation from mid- and small-caps. Gold prices could rise by 10% as rising US debt-to-GDP ratios bolster demand.

Near-term risks to global markets include lower-than-expected Fed rate cuts, ongoing geopolitical tensions, and potential disruptions in the US-China trade relationship.

In the next three to six months, risk assets could see positive momentum as global central banks, including the Fed, initiate rate cuts and China announces fiscal stimulus.

Any resolution of the Ukraine-Russia and Israel-Gaza conflicts, as Trump has promised, would further support risk sentiment. However, geopolitical or monetary policy missteps could dampen optimism.

## INDIA'S OPPORTUNITIES

## AND RISKS

Trump's presidency presents mixed outcomes for India. On the positive side, India is well-positioned to benefit from anti-China policies, with its domestic value-added contribution to US manufacturing demand growing at a CAGR of 5% (2010-2019), outpacing South Asian peers except Vietnam (13%).

Indian sectors like IT, pharma, defence, and electronics manufacturing services (EMS) stand to gain from increased US spending, a weaker rupee, and global supply chain diversification.

While India's "Make in India" campaign has attracted global giants like Apple to bolster local manufacturing, the push to bring jobs back to the US under the Trump administration could affect India's growing tech and manufacturing sectors.

Oil prices are expected to remain muted due to Trump's focus on fracking and higher US energy output, benefiting Indian oil marketing companies and crude-dependent sectors.

On the US front, while concerns about rising tariffs under Trump persist, trade relations between India and the US have grown significantly.

Bilateral trade surged from \$64.5 billion in FY17 to \$88.9 billion in FY20, despite tariff disputes. India has already countered US tariffs with retaliatory measures, but both



countries continue to benefit from strong commercial ties.

## THE CHINA ANGLE

India has gained a 5% share, equivalent to \$31 billion, in US incremental imports since 2018, capitalizing on the global supply chain realignments initiated during the US-China trade war.

If Trump pursues harsher tariffs on China, India could benefit from a differential tariff strategy that would spare its exports from the most severe duties imposed on Chinese goods.

The strategy, aimed at reducing the reliance on China, could lead to increased opportunities for Indian businesses, particularly in the areas of H1B visas and investment from global companies seeking alternatives to China.

India's economic positioning must be considered against improving Indo-China relations, marked by recent border settlements and visa relaxations for Chinese nationals. India's pivot, evident through discussions on a BRICS currency and subtle inclusions of Chinese investments, adds complexity to its relations with the US under Trump.

Overall, despite short-term challenges, India's structural strengths, such as its growing strategic partnership with the US and its manufacturing focus under the "Make in India" initiative, position it to attract foreign investment redirected from China.

## TRADE RELATIONS

With Trump returning to office, the outlook for trade is mixed. While certain sectors may face tariff hikes, the broader trajectory of India-US trade remains positive, driven by mutual geopolitical interests and economic cooperation.

Trump's "Make in America" plan could lead to higher tariffs on Indian manufactured goods, impacting exports.

Additionally, India's exports in categories such as textiles, engines, and iron products, which compete with Chinese imports, may face uncertainties if US tariffs disrupt the value chain.

The expansion of trade between India and the United States has introduced new sectors, with smartphones now accounting for 7% of India's exports, matching the share of gems and jewellery, and solar photovoltaic cells assembled in modules.

The US continues to be India's largest trading partner, with annual trade exceeding \$190 billion. Between FY20 and FY24, India's merchandise exports to the US increased by 46%, from \$53.1 billion to \$77.5 billion, while imports grew by 17.9%, rising from \$35.8 billion to \$42.2 billion.

Trade in services between the two nations has also seen huge growth, expanding 30.3% from \$54.1 billion in 2018 to an estimated \$70.5 billion in 2024. Key sectors for Indian exports to the US include technology, pharmaceuticals, textiles, and

engineering products.

However, any increase in tariffs by the US could severely impact several export-oriented sectors in India that rely heavily on the US market. In particular, sectors such as engineering goods, steel, pharmaceuticals, textiles, and information technology could be vulnerable.

During the Trump administration, the US imposed a 25% tariff on steel and 10% on aluminium imports, which led to substantial losses in Indian steel and aluminium exports. The steel sector alone saw a reduction of approximately \$240 million in exports due to these tariffs.

While comparisons between the Donald Trump and Joe Biden administrations are complex due to the global disruption caused by the coronavirus pandemic, the imposition of tariffs under Trump's 'America First' agenda has already had a notable impact on Indian exports, especially in the steel and aluminium sectors.

Looking ahead, under Trump, there is a possibility of a renewed focus on tariffs, particularly on steel, aluminium, and other key Indian exports.

While Trump's rhetoric often targeted India's trade practices, including high tariffs on American goods like Harley-Davidson motorcycles, analysts suggest that India may have the option to retaliate if these tariffs are reimposed.



# STEADY BUT SHAKY

IMF's latest  
World Economic  
Outlook  
forecasts modest  
3.2% global  
growth, with the  
US thriving  
while Europe  
grapples with  
inflation



As the world grapples with geopolitical crises and important events like the US elections that impact global markets, the IMF's latest World Economic Outlook offers valuable insights into key economic indicators and global trends. This edition explores the shifting economic landscape shaped by geopolitical risks, inflationary pressures, and uneven growth. It highlights potential disruptions from China's property market, rising global inflation, and energy vulnerabilities, all affecting both advanced and emerging economies.

Global economic growth is projected to stabilize but remain modest at 3.2% in both 2024 and 2025, as indicated in the IMF's October '24 World Economic Outlook. This forecast aligns closely with previous estimates, suggesting no major acceleration or decline on the horizon.

However, this stability conceals significant variation across individual economies, with some regions experiencing notably slower growth. The IMF report states, "Persistent structural challenges and economic fragmentation will likely inhibit any robust recovery for the foreseeable future." This outlook reflects ongoing post-pandemic disruptions, inflationary pressures, and a more fragmented global economy.

## US ECONOMY SURGES, EUROPE STRUGGLES

In advanced economies, growth forecasts reveal a widening gap between the United States and major European nations. The US growth projection for 2024 has been revised upward to 2.4% from 2.1%, driven by strong consumer demand and investments in AI, semiconductors, and green technology. Resilient labour markets, alongside supportive fiscal and monetary policies, further bolster this momentum.

Conversely, European economies face inflationary pressures and weak industrial output. The euro area's 2024 forecast is now just 0.9%, with growth for Germany, France, and Italy downgraded to 0.7%, 0.8%, and 0.6%, respectively, largely due to rising energy costs and stagnant wages. Core inflation in Europe remains high, projected at 4.2% for 2024. The UK faces similar challenges, with only 0.7% growth expected. The IMF points to structural constraints and persistent inflation as primary barriers to recovery across Europe, contrasting with the US's resilient

growth driven by advanced sectors and robust demand.

## POTENTIAL PITFALLS AHEAD

Downside risks to global growth are increasingly pronounced, with concerns around financial volatility, geopolitical tensions, and challenges in China's property market.

Financial markets have seen heightened volatility as central banks navigate inflationary pressures and the impacts of prior rate hikes. The IMF warns, "Persistent financial volatility risks undermining liquidity and credit conditions, with potential spillovers for investment and consumer confidence."

High debt levels and shifting credit conditions pose challenges for economies reliant on capital inflows, especially in emerging markets.

Geopolitical tensions continue to generate substantial uncertainty. Conflicts involving major economies disrupt trade relationships, increase supply chain risks, and drive up business costs.

The IMF also identifies China's property market as a critical risk. This sector, a substantial part of China's GDP, faces pressures from defaults and declining property values. According to the IMF, "China's property sector turmoil could trigger broader market disruptions with repercussions for global commodity markets and investment flows."

China's economic slowdown is

expected to be gradual, with 2024 GDP growth projected at a moderate 4.8%, aided by stronger-than-anticipated net exports. Nonetheless, persistent challenges in the real estate sector and weak consumer confidence continue to cloud the outlook.

The IMF cautions that China's property sector faces deepening contraction risks, potentially leading to further price declines amid reduced sales and investment. Drawing parallels to Japan in the 1990s and the US in 2008, the IMF notes that unresolved issues in the property sector could trigger sharper price corrections, further eroding already-low consumer confidence and stifling domestic demand.

Given China's significant role in global trade, a sustained decline in its economy could ripple through both advanced and emerging markets, heightening global uncertainties and slowing recovery efforts.

### GEOPOLITICS: A WILDCARD FOR COMMODITY PRICES

Geopolitical tensions, particularly from the ongoing Eastern European conflict, are significantly impacting the global economy. The IMF warns that geopolitical fragmentation threatens global trade by shifting supply chains and regionalizing alliances, posing serious risks for both developed and emerging markets. This trend of "de-globalization," driven by uncertainty, challenges traditional global partnerships and could reshape economic

landscapes.

Energy and food markets are especially vulnerable, with European countries - heavily reliant on imports - facing high energy prices. This inflationary pressure has prompted central banks in affected regions to adopt stricter monetary policies to curb rising prices, though the IMF cautions that these measures may hinder short-term economic growth. Additionally, the IMF notes that fragmentation may amplify inflation and reduce productivity over time.

To mitigate risks, many nations are pursuing diversified trade partnerships and securing domestic sources for energy and essential commodities. While this shift enhances resilience, it may reduce global efficiency, with the IMF highlighting the economic strain these adjustments place on trade-dependent developing countries.

Commodity-exporting regions, like the Middle East and Central Asia, face growth challenges from oil price volatility and regional instability. In Sub-Saharan Africa, growth is projected at 3.2% for 2024, though challenges include inflation, climate issues, and economic instability. This outlook underscores the need for coordinated policy, structural reforms, and inflation control to ensure stability and long-term growth.

### GLOBAL INFLATION LIKELY TO EASE

The October 2024 IMF report

projects a gradual decline in global inflation, with expectations for it to fall from 6.7% in 2023 to 5.8% in 2024 and 4.3% in 2025. This trend is attributed to easing supply chain pressures and greater stability in commodity prices.

Advanced economies are expected to reach target inflation levels sooner than developing economies, largely due to stronger monetary policy frameworks and institutional stability, which enable more effective inflation management.

According to the IMF, "Advanced economies are better positioned to rein in inflation due to policy agility and institutional resilience, while many developing nations will face a prolonged inflationary environment."

In the United States, inflation is expected to average 3.1% in 2024, reflecting a steady retreat from peak pandemic-era levels. In the euro area, however, inflation remains a concern. The IMF warns that "inflation in Europe's service sectors, compounded by high energy costs, continues to constrain growth and elevate the cost of living."

While the global decline in inflation is a major milestone, the IMF notes that downside risks are rising and now dominate the outlook: "an escalation in regional conflicts, monetary policy remaining tight for too long, a possible resurgence of financial market volatility with adverse effects on sovereign debt markets, a deeper growth slowdown in



China, and the continued ratcheting up of protectionist policies.”

## INDIA'S GROWTH KEEPS GAINING TRACTION

Despite lower economic output compared to last year, India remains a high-growth economy. In its outlook report, the IMF indicated, “The outlook for India’s GDP growth is to moderate from 8.2% in 2023 to 7% in 2024 and 6.5% in 2025, as pent-up demand accumulated during the pandemic has been exhausted and the economy reconnects with its potential.”

India is benefiting from its position as a key player in emerging Asia, with growing demand in high-tech industries, particularly in electronics, semiconductors, and other technology-driven sectors. The IMF report highlights that India’s strategic structural reforms and substantial investments in technology have created a favourable environment for

capturing a larger share of the global electronics and semiconductor markets.

The Indian government’s efforts to support this growth are evident in initiatives like the Production Linked Incentive (PLI) scheme. Launched to incentivize domestic manufacturing, the PLI has already attracted billions of dollars in investment, particularly in sectors like electronics and semiconductors.

The scheme’s ambitious target is to generate 1 million jobs in the electronics sector by 2025. This aligns with India’s broader goal to build a self-sustaining tech ecosystem and reduce its reliance on imports in key technological areas.

However, the IMF also offers important caveats. It cautions that India’s growth potential will be significantly shaped by continued investments in infrastructure and human capital development.

Enhancing physical and digital infrastructure is critical to supporting the expanding tech industry and attracting further foreign investment. Additionally, skill development is a key focus, as the growth of sectors like semiconductors requires a highly skilled workforce.

## IN A NUTSHELL

In summary, the IMF’s latest report provides critical insights into four key areas shaping the global economy. First, global growth remains modest at 3.2%, with varied performances across regions.

Second, while US growth accelerates, Europe faces challenges with inflation and industrial stagnation.

Third, downside risks such as geopolitical tensions and China’s property market instability threaten financial stability. Finally, inflation shows signs of easing but remains uneven, particularly in Europe.

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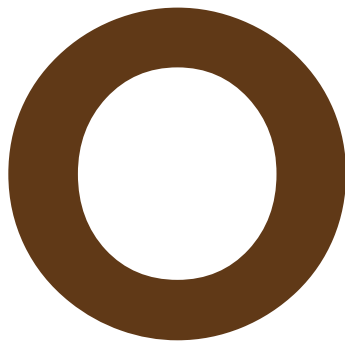
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# TAKING A FIRM STANCE

RBI's action against select NBFCs aims to curb the risks of 'growth at any cost' before it jeopardizes the entire system





ver the last few months, the Reserve Bank of India (RBI) has been sensitizing the country's lenders through various channels on the need to be prudent in their operational and compliance practices.

However, on 17th October, the central bank took a more specific step and barred four NBFCs - Asirvad Micro Finance Limited, Arohan Financial Services Limited, DMI Finance Private Limited, and Navi Finserv Limited - from issuing further loans. From the RBI's perspective, a tighter approach was necessary to protect customer interests and maintain sectoral health.

While unfair and usurious practices were noticed during the course of RBI's onsite and offsite examinations of these NBFCs, many are wondering if there are more such NBFCs that might meet this fate. Broadly, there are concerns about the sector's future growth if tighter norms are eventually applied to the entire space.

It's worth pointing out that sector fundamentals are currently strong, and the initial commentary from experts following the RBI's move suggests that the directive to these four NBFCs is specific and does not signal any systemic concerns. Therefore, the move is unlikely to affect the entire sector.

However, the rapid growth of NBFCs in recent years and the increasing risk perception of the sector necessitate efficient regulation. Currently, the NBFC sector holds a significant 22% share of the credit market, alongside banks, NBFCs, and AIFIs.

It's also worth remembering the aftermath of the debt default of Infrastructure Leasing and Financial Services Ltd (ILFS) in 2018, which led to a liquidity crunch and made credit more expensive for the entire sector, thus negatively impacting the fundamentals of the NBFC space.

The approximately 9,500-strong NBFC ecosystem in the country - including microfinance institutions, housing finance companies, infrastructure finance companies, and infrastructure debt funds - has been growing at a robust rate. From about ₹47 trillion in March '24, the sector's assets under management (AUM) are set to exceed ₹50 trillion before March '25, up from around ₹28 trillion in FY17-18.

## BROADER CONCERNS

While the overall NBFC sector is healthy, the central bank is concerned about the business practices followed by some NBFCs in their pursuit of high growth. Specifically, the RBI has flagged a few issues:

### 'Growth At Any Cost'

Some NBFCs are aggressively pursuing growth without building sustainable business practices and risk management frameworks, commensurate with the scale and complexity of their portfolios.

### Chasing Excessive Returns For Investors

Some NBFCs are under pressure from their investors to grow and deliver returns to both domestic and overseas investors. As a result, these NBFCs charge 'usurious' interest rates, high processing fees, and frivolous penalties from customers. They have been aggressively pushing loan products to undeserving customers.

### Adverse Work Culture And Poor Customer Service

The prevailing compensation practices, variable pay, and incentive structures for employees and intermediaries at some NBFCs appear to be purely target-driven with little consideration for risks and compliance.

## STRUCTURAL CONCERNS

In addition to the above, there are also a few fundamental changes that the NBFC sector

is witnessing:

### Changing Portfolio Mix

Retail loans are now driving NBFC growth, with housing loans leading the share, followed by MSME loans, Loan Against Property (LAP), and vehicle loans. The overall proportion of retail loans has risen from 42% in FY17-18 to 53% in FY23-24.

### Interconnectedness With Banks

NBFCs' dependence on commercial banks for funds remains high. Bank finance to NBFCs has increased fourfold over the past seven years, from fiscal year 2016-17 to fiscal year 2023-24. According to CareEdge Ratings, bank finance to NBFCs has risen from 5% to around 9.4% during this period. In addition to bank loans, banks also support NBFCs through their investment books.

### Rise In Unsecured Personal Loans And Digital Lending

There has been an increase in the share of unsecured loans (personal and business

purpose loans) to 11% of the overall NBFC AUM in March '24, up from 7% in March '21. As per CareEdge Ratings, the value of personal loans originated by NBFCs surged from ₹0.58 trillion in FY20-21 to ₹2.85 trillion in FY23-24. This expansion is accompanied by a substantial rise in the number of loans originated, increasing from 1.9 crore in FY20-21 to 10.4 crore in FY23-24. A shift towards higher ticket and longer tenure loans is also evident, with the average loan ticket size increasing from ₹25,000.

### IN A NUTSHELL

From the above, it is clear that NBFCs are capitalizing on their unique selling proposition compared to commercial banks, ensuring deeper credit penetration in the country with lower transaction costs, quick decision-making, customer orientation, and prompt provision of services.

Importantly, the sector has stronger balance sheets with reduced leverage and improved asset quality. The gross non-performing asset and net non-performing asset

ratios of the NBFC sector in June '24 were 2.6% and 1.1%, respectively, compared to 3.2% and 1.2% in June '23. Even the credit costs are near bottom. However, regulatory clampdowns will slow down growth rates. Ratings agency ICRA has projected the growth of NBFC AUM to ease to 13% to 15% in fiscal year 2024-2025, down from 18% in fiscal year 2023-2024.

As India targets becoming a US \$5 trillion economy in the coming years, the demand for financing is set to increase. This underscores the vital role of NBFCs in supporting economic growth and development. NBFCs play an important role as a 'spare tyre' in the economy, complementing the banking industry.

However, with higher regulatory oversight now, the focus on due diligence by NBFCs will be slightly more rigorous than it was earlier. NBFCs will innovate in terms of assessing borrower risks to ensure lower delinquencies. This is beneficial for the long-term sustainable growth of the sector.



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# TEMPERED BY FIRE

India's steel sector faces the heat from cheap Chinese imports but holds strong long-term growth prospects driven by rising domestic demand and capacity expansion



China has dominated the global steel industry for years, and its grip on the market shows no signs of loosening. In 2023, China churned out over 1,000 million tonnes (MT) of crude steel - more than half of the global production.

But here's the twist to this story: the country exports most of its steel at a loss, under-pricing competitors like Japan by a wide margin. China has been using this strategy since the year 2015 to keep its factories running and maintain global dominance in the steel market, even when it means taking a major financial hit.

This strategy has significant ripple effects worldwide. Enter India, which has unexpectedly turned into a net importer of steel in 2024. Between April and August this year, steel imports surged by 25%, with over 40% of those imports coming from neighbouring China. In July alone, Chinese steel made up more than 70% of India's total steel imports, the highest share in seven years.

The impact on India's steel sector is significant. As China dumps cheap steel into the market, Indian steel prices have plunged to three-year lows. Hot-rolled coil prices have fallen from ₹76,000 per tonne in 2022 to ₹51,000 per tonne today. Meanwhile, Chinese steel is even cheaper, undercutting Indian prices at ₹48,000 per tonne, making it even harder for domestic producers to compete.

### IMPACT ON INDIA'S STEEL MAKERS

The steel industry is known to be highly cyclical, and the current market conditions are a sharp reminder of how volatile it can be. In a bull market scenario, steel producers can profit handsomely, while in a bear market, steel consumers - such as car manufacturers and construction companies - benefit from lower costs.

But when the global supply chain is disrupted, and countries like China flood the market with underpriced steel, it becomes harder for Indian producers to thrive.

Indian steel prices have dropped massively, but the industry isn't necessarily doomed. India's steel consumption per capita

remains relatively low, at just 86 kg per annum, compared to the global average of 219 kg.

With India's infrastructure boom, the growing automobile sector, and its rising position as a hub for electronics manufacturing, the demand for steel is expected to rise in the country.

The Indian government has set ambitious targets to increase crude steel capacity to 300 MT and production to 255 MT by 2030, driving further demand for steel.

Indian steelmakers are already investing heavily to meet these targets, signalling that the sector has ample room to grow - though it's clear that the path forward won't be smooth.

Major Indian steel companies, including JSW Steel, Jindal Steel and Power (JSPL), Tata Steel, and ArcelorMittal Nippon Steel (AMNS), are anticipated to drive nearly 87% of the capacity expansion in India.

Despite the significant capacity growth, demand will continue to exceed supply, improving companies' balance sheets and reducing their reliance on exports.

Indian steel producers are strategically positioned in the global market, benefiting from low operating costs, particularly due to cheaper labour and competitive iron ore prices, even for non-integrated producers.

Future growth in India's steel

sector is expected to come mainly from new projects, along with the expansion and modernization of existing facilities. Strong domestic demand will also help reduce the industry's dependence on exports.

### Q2FY25: MARGIN PRESSURES INTENSIFY

Steel companies in India are facing margin pressures in Q2 FY25, which are likely to persist until China's economy recovers and global demand improves. For some categories of steel, prices have reached multi-year lows.

The situation is somewhat mitigated by lower ore and coal prices, but the ongoing glut of cheap Chinese steel in the market continues to weigh heavily on the industry.

In Q1 FY25, Tata Steel and JSW Steel reported flat operating profit margins, with higher volumes and lower input prices offsetting the impact of low steel prices.

On the other hand, the Steel Authority of India (SAIL) saw a margin contraction, while NMDC benefitted from lower royalty expenses, which led to margin expansion.

In the steel pipes segment, Surya Roshni (SYR) posted strong margins thanks to a favourable mix of steel and lighting products. Apollo Tubes, despite record volumes, saw flat margins.

Steel companies are ramping up their capacities to meet future demand. Tata Steel and JSW Steel aim to reach 40–50

million tonnes (MT) of steel capacity each by 2030, while NMDC is targeting 100 MT of capacity by 2030.

In the steel pipe segment, Apollo Tubes plans to expand its capacity to 5 MT, and SYR is investing in expanding its capacity from 1.2 MT to 2 MT within the next two years.

India's domestic demand outlook remains positive in the long term. In Q1 FY25, steel imports rose by 67% year-on-year (y-o-y) to 1.9 MT, though they fell 11% from the previous quarter.

About 85% of imports came from China, South Korea, and Japan. The surge in imports, particularly from China, is expected to continue at least until September '24.

### STEEL PRICES AND PROTECTIONISM

India's crude steel production grew 4% y-o-y from January '24 to June '24, but there was a 2% month-on-month (m-o-m) drop in June. Meanwhile, finished steel imports surged 35% y-o-y, while steel exports fell 38% y-o-y.

As capacity expands, Indian steelmakers face growing protectionist trends, as evidenced by anti-dumping duty investigations in the EU against several countries, including India.

Domestic steel prices have declined 2% to 3% m-o-m in August '24, and regional prices led by China have fallen 6% to 7%. Indian steel prices are currently trading at a

premium of over 5% to import parity, suggesting a downside risk for the industry.

Non-integrated players like Jindal Steel & Power and JSW Steel are likely to fare better due to their ability to source cheaper ore, but the overall steel sector will continue to struggle until the global cycle turns in their favour.

### THE ROAD AHEAD

While cheap Chinese imports and global price volatility remain major hurdles, India's long-term demand outlook for steel appears promising. Infrastructure and auto sectors are poised to drive sustained growth, reducing reliance on exports.

Protectionist measures, like anti-dumping investigations in the EU, signal potential headwinds, but India's competitive labour and ore costs provide a strategic advantage.

The industry's evolution hinges on its ability to adapt. Can Indian steelmakers weather the storm and emerge stronger?

With strategic capacity expansion, a focus on innovation, and careful cost management, the sector could solidify its role as a cornerstone of India's economic growth.

India's steel industry stands at a critical juncture. The short-term challenges persist, but the groundwork being laid today could secure a resilient and prosperous future for the sector.





# PIRACY: STEALING THE SHOW!

Piracy is where blockbuster hits go cheap because the prices are steep



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iracy is the bane of creativity - and it's everywhere. According to the website of software solutions company Go-Globe, piracy has sunk its claws into every digital media format, from television and movies to music, software, video games, and even books. Their site estimates a staggering 141 billion visits to piracy websites in 2023-24 alone. Unsurprisingly, the US, Russia, and China top the charts for the most visits to these platforms.

The site also reveals that videos - including films and TV shows - are the most pirated content on the internet, making up 66% of all pirated material. And the financial toll? The US alone loses \$29.2 billion annually to online video piracy. During the Covid-19 lockdown, when people had more time on their hands (and apparently on piracy websites), global film piracy spiked by 33%. It's clear that piracy is not just a nuisance; it's a deeply entrenched menace in the global entertainment industry.

## BACK HOME: INDIA'S PIRACY PREDICAMENT

India is no stranger to the piracy epidemic. A recent study by consulting firm EY and the Internet and Mobile Association of India (IAMAI), titled The Rob Report, highlights how piracy plagues India's film industry and OTT platforms. The report dives into the many factors that drive piracy in India, including gender, language, age, internet habits, and geography.

Here are some highlights from the report that paint a vivid picture of piracy's revenue-draining impact on India's entertainment industry.

- **India's Media Boom:** India's media and entertainment industry has been one of the country's fastest-growing sectors, thanks largely to digitalization. According to the FICCI-EY 2024 report, the industry raked in ₹2,31,700 crore in 2023 and is on track to hit ₹3,08,100 crore by 2026.
- **The Double-Edged Sword of Digitalization:** While the growth of the online video market has boosted the industry, it has also provided fertile ground for piracy.
- **Theatrical Revenues vs. Online Piracy:** The growth of theatrical revenues is another key trend, but it's constantly undercut by the ease of accessing pirated content online.

So, while India's entertainment industry continues to thrive,

piracy remains the elephant in the room - or rather, the pirate ship on the horizon - threatening to loot its riches.

Here are some notable findings which present a comprehensive story of revenue-destructive impact of rampant piracy in India.

## GROWING DIGITAL ADOPTION

The subscription revenue in India's entertainment sector has skyrocketed by 150% since the pandemic - a leap that even the most optimistic streaming platforms probably didn't see coming.

However, digital video subscription growth seems to have hit the brakes, slowing to 7% in 2023. Despite the cool down, it may climb to ₹10,300 crore by 2026.

Why the rise and fall? The report points to a growing trend of users activating and deactivating subscriptions as needed. Call it commitment issues or smart budgeting, but it's definitely keeping the OTT platforms on their toes!

Streaming platforms have also changed the game for production companies. They now offer a more diverse release strategy, allowing films with modest budgets to find an audience without having to compete directly with massive blockbusters. This clever bifurcation, as the report notes, maximizes viewership while enhancing the commercial prospects of a wider range of content. It's a win-win for the underdogs and the heavyweights - though the

real winners are, of course, the binge-watchers.

## INCREASING GROWTH OF THEATRICAL REVENUES

The report highlights that the growth in theatrical revenues is unlikely to slow down, given the increasing tendency of people to watch films in theatres. Even filmmakers are crafting their line-up of films in a way that tent-pole and high-concept productions have become essential requirements for exhibitors to showcase films in cinemas. Here are a few statistics about the growth in theatrical revenues:

- With unprecedented gross domestic box office collections, the Indian box office crossed the ₹12,000 crore mark for the first time, surpassing the 2019 collections of ₹11,500 crore.
- Hindi cinema also experienced a much-needed respite from dwindling numbers, registering a gross box office collection of ₹5,300 crore, the report notes.
- One of the positive developments shared in the report is the estimated growth in revenues in the filmed entertainment segment. India's filmed entertainment segment is expected to grow to ₹14,600 crore by 2026.

Now, against this backdrop of the online video market and filmed entertainment segment, let us understand the impact of piracy on these two segments. Here are the findings of the report:

## COST OF PIRACY

For the first time, an official report has quantified the

impact of piracy on revenues from theatres and the online video market. Unsurprisingly, the findings reveal grave consequences for India's theatres and streaming platforms:

- The potential estimated loss of Goods and Services Tax (GST) is up to ₹4,313 crore.
- The loss to streaming platforms due to piracy is estimated at ₹8,700 crore.
- The loss to theatres due to piracy is pegged at ₹13,700 crore.
- The report notes that, when compared to the segment-wise revenue generated by the sector, the size of the piracy economy ranks fourth.

## Key Reasons For Rampant Piracy In Theatres And Streaming Platforms

According to the report, several prominent factors drive this widespread and increasing piracy.

Illegal streaming platforms are the top choice for accessing pirated versions of both streaming platforms' content and recent theatrical releases, followed by unregulated applications.

Mobile apps have overtaken torrents as the primary source for pirated content, with only 6% of total pirated content accessed through torrents.

About 10% of pirated content is consumed via social media, where the younger demographic gravitates toward General Entertainment Channel (GEC) programming, often available on streaming platforms.

Physical copies are now the least preferred source for pirated content, with only 5% of users accessing both OTT and theatrical releases through this medium.

In 2023, television contributed the lion's share to the media and entertainment sector's total revenue, closely followed by digital media. Without piracy, streaming platforms and the filmed entertainment segments could have been the leading contributors to the sector's revenue.

Despite numerous awareness campaigns and appeals from industry influencers, a significant portion of media consumers continue to access pirated content, causing substantial revenue loss.

According to a survey in the report, 57% of respondents preferred waiting for high-quality prints ripped off from streaming platforms rather than watching glitchy theatrical prints recorded on camcorders.

Pirated content consumers indicated they would not pay for film tickets or streaming subscriptions even if their preferred content was unavailable through pirated sources. This highlights a mindset geared towards consuming good content for free.

Consumers expressed a willingness to switch to legal options if the cost factor was removed or reduced. This suggests the impact of pricing on consumer behaviour and how monetization strategies like ad-supported content might be an effective way to

combat piracy, as the report suggests.

## **SURVEY INSIGHTS ON CONSUMER BEHAVIOUR**

Now, let us understand the granular details of the survey conducted in the report in terms of how consumers consume pirated content based on their age, gender, language and geography:

### **THE AGE PREFERENCES**

- Respondents in the 45+ age group spent the most hours per week consuming pirated content, primarily to watch TV shows from General Entertainment Channels.
- With the pandemic and the subsequent switch to Over-The-Top (OTT) or streaming platforms, many households transitioned from cable networks to OTT subscriptions, leading to a shift in viewing patterns.
- According to the report, 76% of those accessing pirated content belonged to the 19 to 34 age group. However, this did not affect their loyalty to TV programmes. Instead of subscribing to TV channels, they opted to access pirated versions.

### **THE GENDER ANGLE**

- Women accessed pirated content primarily to watch original OTT shows exclusive to specific platforms.
- Men, on the other hand, resorted to watching pirated old films that were no longer in theatres and unavailable on legal streaming platforms, and also sought pirated versions of well-known classics for their viewing.

## **CONTENT PREFERENCE**

- Old films and original OTT content are the most pirated.
- A majority (60%) of pirated content consumers spent hours watching illegitimate versions of original content developed for OTT platforms or films no longer available at theatres.
- On average, nine hours per week were spent consuming pirated content. Around 38% of the time was dedicated to consuming original OTT content, followed by 22% of the time spent watching films after their theatrical release, the report notes.

## **GEOGRAPHICAL LANDSCAPE**

- Limited access to legitimate content, the easy availability of pirated material, and a lack of awareness about the perils of piracy are reasons why Tier II cities consume more pirated content than their Tier I counterparts, the report notes.
- The tendency to consume pirated content can also be attributed to the income disparity between respondents in Tier I and Tier II cities, the report shares.
- Respondents in Tier II cities often have to travel considerable distances to find a theatre, leading to increased piracy during a film's theatrical window.
- Several respondents from Tier I cities accessed pirated content to watch older films, while those from Tier II cities consumed illegitimate versions of recent releases. Tier I consumers resorted to piracy to access hard-to-find content, whereas Tier II consumers seemed more inclined to watch timely content without paying for tickets.

## **LANGUAGE PREFERENCES**

- When it came to illegitimate downloads, content in the widely spoken language – Hindi – garnered the largest viewership.
- English content, while highly sought after, is not easily available, leading to a high demand for pirated versions.

## **IN A NUTSHELL**

It's clear that high ticket prices and subscription costs of streaming platforms have been significant contributors to rampant piracy. Most industry experts agree that theatre owners and streaming platforms should focus on volume growth rather than value growth.

In a volume growth strategy, prices are kept affordable, encouraging more consumers to use the services. In contrast, a value growth strategy relies on steep pricing, where a smaller audience ends up compensating for the lack of broader consumer uptake.

By adopting a volume-focused approach, theatre owners and streaming platforms could potentially curb content leakages, as audiences are more willing to pay for reasonably priced services. A case in point is the recent positive response to the re-release of Hindi films with ticket prices ranging from ₹112 to ₹150. Films like Tumbbad and Laila Majnu performed far better in their re-release than during their original runs - proving that affordability can indeed work wonders for both audiences and creatorS.

# EASING THE PREMIUM PRESSURE

The GST council's upcoming meeting hopes to address potential tax reductions on health and life insurance to improve affordability and insurance penetration while balancing fiscal priorities







The Goods and Services Tax (GST) council is scheduled to meet on 21st December to decide on a crucial matter concerning potential exemptions or reductions of the GST rate on health and life insurance.

The upcoming meeting will be chaired by Union Finance Minister Nirmala Sitharaman along with her state counterparts. The meeting will take place in Jaisalmer, and the council is anticipated to address rate rationalization, with discussions likely leading to recommendations that could lower the tax rates on several essential goods for the general public from the current rate of 12% to 5%.

Currently, the GST framework operates under a four-tier tax structure, which includes slabs at 5%, 12%, 18%, and 28%. The council has previously established two Groups of Ministers (GoMs) - one to review GST rates across various items, and another specifically dedicated to evaluating the tax applied to health and life insurance premiums.

During a prior meeting on 9th September, the council tasked the GoM with finalizing a report regarding the GST levy on insurance by the end of October. Subsequently, the GoM focused on health and life insurance convened last month and reached a preliminary tentative agreement to exempt GST on premiums paid for term life insurance policies and health insurance aimed at senior citizens.

A recent meeting of the GST council, which took place in the capital city of Delhi under the leadership of Finance Minister Nirmala Sitharaman, saw attendance from finance ministers from various Indian states and senior officials from the Ministry of Finance.

They engaged in comprehensive discussions on several pressing issues impacting the GST framework. Notably, the agenda included considerations for reducing GST on health insurance premiums and extending tax relief to foreign airlines.

Among the significant outcomes from this meeting was the formation of a new GoM assigned with the task of exploring the feasibility of lowering GST rates specifically for health insurance premiums. This new group will be led by the Deputy Chief

Minister of Bihar and will comprise members focused on addressing this critical issue. The council had set a deadline for the GoM to submit its report by the end of October '24, with plans to make final decisions based on their findings.

Shanai Ghosh, Managing Director and CEO of Zuno General Insurance, expressed optimism, stating, "The reduction in GST will make insurance more affordable for customers, and we anticipate that more individuals will be able to afford insurance."

### Potential Impacts Of GST Reduction On Health Insurance

Industry experts have begun to analyze the implications of lowering GST rates within the insurance sector.

The importance of reducing GST on health and life insurance, particularly for white-collar workers who currently lack sufficient social security coverage is undeniable. This is because while the Employees' State Insurance Corporation (ESIC) primarily protects blue-collar workers, there is a substantial gap in coverage for other workforce segments.

A reduction in GST is likely to have a negligible effect on government revenues. In fact, lowering tax rates could significantly enhance insurance penetration, thereby improving access to essential coverage.

### Recommendations For Employee Benefits And GST

## Adjustments

In light of these discussions, sector experts have proposed the introduction of input tax credits for employee benefits, especially for health insurance, and lowering the GST rate from the current 18% to 5% to ease the financial burden on employers.

At present, the costs associated with providing health benefits can severely restrict the overall coverage available to employees.

They also recommend tax incentives for employer-sponsored insurance plans, particularly those that extend coverage to employees post-retirement, to encourage long-term protection.

## Addressing Low Insurance Penetration In India

Narendra Bharindwal, Vice President of the Insurance Brokers Association of India (IBAI), has pointed out the alarmingly low insurance penetration rate in India, currently at 4%, in contrast to the global average of 6.8%.

He reiterated that reducing or eliminating GST on essential insurance products, such as term life insurance, could increase affordability among buyers and encourage more individuals to secure adequate insurance coverage.

Bharindwal emphasized that improving insurance penetration is crucial for enhancing overall financial resilience within the country.

He cited robust GST

collections, which reached ₹1.82 trillion in July '24, as evidence that there is fiscal space to lower taxes on essential services, including insurance.

By making insurance policies more affordable, the government could stimulate greater participation in the insurance market, ultimately contributing to improved financial security for the population.

The transition from a service tax to an 18% GST has led to an increase in premium amounts on insurance policies. Over recent years, there has been a notable rise in GST collected on insurance premiums and renewals.

According to data presented in the Lok Sabha in August '24, GST collected on insurance premiums rose from ₹5,354.28 crore in FY21-22 to ₹8,262.94 crore in FY23-24.

Similarly, GST collected from health reinsurance premiums surged from ₹825.95 crore to ₹1,484.36 crore during the same period.

## Upcoming Discussions And Legislative Context

Previously, the GST Council was expected to revisit these topics in the month of November, following the GoM's report. This subsequent meeting will be pivotal in determining whether to proceed with the proposed GST reductions on health insurance and related matters.

The urgency of these discussions has been

highlighted by the rising insurance premiums for health and life insurance policies this year, compounded by the existing 18% GST. This combination has rendered insurance increasingly unaffordable for many citizens in the country.

## Political Reactions And Public Sentiment

In response to the escalating costs, opposition leaders have strongly criticized the GST on life and health insurance premiums.

Protests erupted in Parliament, led by members of the opposition, including Rahul Gandhi, Trinamool Congress leader Mamata Banerjee and other opposition parties, who called for the withdrawal of this tax, asserting that such taxes disproportionately burden the public, particularly those in vulnerable financial positions.

Earlier this year, Union Minister Nitin Gadkari expressed similar views, arguing that taxing life and medical insurance premiums essentially amounts to taxing the uncertainties of life, which could hinder the growth of the insurance sector.

## Future Meetings And Recommendations

The GST council is set to convene once more in Jaisalmer, Rajasthan, on 21st Dec '24, to continue discussions regarding potential GST relief for health and life insurance.

## Insights From The GoM On

## Insurance Taxation

On 19th Oct '24, the GoM concentrated on the taxation of insurance products and made several key recommendations. Notably, they suggested exempting health insurance products designed for senior citizens from GST.

Furthermore, the GoM proposed lowering the GST rate on health insurance products providing coverage up to ₹5 lakh from 18% to 5%, without allowing input tax credits.

Consideration was also given to the complete removal of GST from life insurance premiums, including term insurance policies.

### Financial Implications Of Proposed GST Reductions On The Insurance Industry

The financial implications of these proposed reductions are substantial. Rakesh Jain, CEO of Reliance General Insurance, illustrated potential savings for policyholders.

For example, on a health insurance premium of ₹10,000, the current GST at 18% adds ₹1,800, resulting in a total premium of ₹11,800.

If GST were to be eliminated, policyholders would save this additional amount that they would have otherwise paid on their health insurance policies.

Similarly, a reduction to 12% or 5% would yield significant savings for consumers, making insurance more accessible

among buyers.

### Balancing Revenue Needs And Affordability

While the prospect of eliminating GST on health insurance premiums is appealing to consumers, experts warn that such a move could lead to unintended consequences.

Sumit Bohra, President of the Insurance Brokers Association of India, noted that while exempting health insurance premiums for senior citizens would directly relieve financial pressure, it could also affect government revenue that supports various social welfare programmes, including health initiatives for disadvantaged populations.

Industry experts said that while a complete removal of GST may not be feasible due to the government's revenue needs, a partial reduction appears more realistic.

The challenge lies in balancing the necessity for affordable insurance with the government's requirement for funding essential social development programmes for the benefit of the masses.

### The Future Of Insurance Taxation In India

Sharad Mathur, MD and CEO of Universal Sampo General Insurance, also highlighted the complexities of reducing GST to zero, especially concerning the input tax credit currently available to insurance firms.

This credit enables businesses to offset GST paid on inputs

against GST collected on outputs. Removing GST would eliminate this advantage, potentially leading to increased operational costs and reduced profitability, which could ultimately impact premium pricing.

### Next Steps For The GST Council

The GoM was expected to finalize its report by 31st Oct '24, after which the GST council will convene to reach its final decision.

The outcome of these discussions is poised to significantly influence the insurance landscape in India, potentially making health and life insurance more affordable to millions of citizens.

### IN A NUTSHELL

Overall, the forthcoming GST council meeting is set to play a pivotal role in shaping the taxation framework for insurance products in India, and, subsequently, help improve insurance penetration across the country.

The recommendations put forth by the GoM hold promise for increasing accessibility to insurance, particularly for vulnerable populations such as senior citizens.

As these discussions progress, stakeholders both across the industry and the government will closely monitor developments to ensure that the financial viability of insurance providers as well as consumer welfare are prioritized in the council's final decision.

# BORROWING BOLDLY, SAVING SPARINGLY

Post-pandemic, India's tech-savvy middle class is leveraging bold borrowing trends, balancing premium spending with smarter investments for a bright future





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ost-pandemic, there's been a noticeable shift in how Indians are spending. Saving for the future seems to be slowly losing its appeal, at least according to a recent study by the Non-Banking Financial Company (NBFC) Home Credit India Finance. The study, titled *How India Borrows 2024*, sheds light on the borrowing habits of Indian consumers across various segments. One of the key takeaways? The borrowing pattern of India's middle class is definitely worth a second look!

The study surveyed 17 major cities and 2,500 borrowers between the ages of 18 and 55. A key point to note is that it focuses on loans that were recently taken out, with borrowers actively repaying them. Here are some key findings from the study:

- The lower-middle-class demographic in India is shifting away from necessity-based borrowing. Instead, they're focusing more on aspirations, entrepreneurship, and strategic long-term investments.
- The survey revealed that most loans were used to purchase consumer durables, with borrowing for business ventures and home improvements following closely behind. The percentage of loans taken for smartphones and household appliances surged dramatically - from just 1% in 2020 to 37% in 2024. This shows a consistent uptrend in borrowing for modern technology and consumer goods.
- Loans for business expansion and start-ups saw a huge leap, jumping to 21% in 2024 from just 5% in 2020. This is largely due to a rising entrepreneurial spirit, as people sought to explore new revenue streams and opportunities amid the pandemic's economic changes. Robust government support for micro, small, and medium enterprises (MSMEs) - through credit facilities and subsidies - has further bolstered this trend.
- Between 2022 and 2024, borrowing for home renovations and construction increased noticeably, rising to 15% from 9%. This suggests a growing interest in improving living conditions, adding value to homes, and making long-term investments, all driven by an optimistic economic outlook.
- Borrowing for weddings saw a gradual increase from 3% in

2021 to 5% in 2024. It's clear that the pressure to host lavish weddings is still strong - no one's skimping on the celebrations!

- Education loans have maintained a steady growth rate of 4% from 2022 to 2024, showing that people continue to prioritize their children's education over other material goals.
- Borrowing for medical emergencies has decreased significantly, dropping from 7% in 2020 to just 3% in 2024. This can largely be attributed to better financial planning, more accessible healthcare options, and improved insurance coverage.

The study also focused on the digital transactions of consumers, offering some interesting insights. Here's a quick rundown:

- The research shows that consumers have become much more tech-savvy. There's been a notable shift in borrowing habits towards app-based banking.

In 2024, 65% of consumers prefer app-based banking, while 44% still opt for browser-based banking. This shift reflects a growing preference for convenience, uninterrupted financial access, and the increasing digital literacy of consumers.

- Millennials lead the pack when it comes to app-based banking usage (69%), followed by Gen Z (65%) and Gen X (58%).
- Geographically, consumers

in metro cities have a higher rate of app-based banking adoption at 71%, compared to 69% in Tier II cities.

Interestingly, browser-based banking is more popular among Gen Z and Millennials than Gen X. Both Gen Z and Millennials have a 47% usage rate, while Gen X trails with 35%.

- Online shopping has made a post-pandemic recovery. In 2021, online shopping peaked at 69% due to health and safety concerns, but it dropped to 48% in 2023 as restrictions eased. By 2024, it's slightly rebounded to 53%.

Women (60%), Millennials (59%), Gen Z (58%), and consumers in metros and Tier II cities (56% each) are now driving this trend. The top five cities in terms of online shoppers are Kolkata (71%), Kochi (66%), Hyderabad (64%), Chennai (60%), and Ranchi (59%).

The study also examined borrowings in the form of embedded finance and EMI cards, observing a growing popularity of these innovative financial solutions. They're increasingly preferred for their convenience in credit-related transactions.

The study shows that 43% of customers are interested in these services, and nearly half of those who support embedded finance believe it streamlines the borrowing process and simplifies e-commerce shopping.

Among them, 64% favour major e-commerce platforms

like Amazon, Flipkart, and Meesho; 21% opt for travel apps such as MakeMyTrip and ClearTrip, and 23% choose food delivery apps like Zomato and Swiggy.

Interest in embedded finance is notably higher among Gen Z individuals (55%) and male participants (45%).

Additionally, consumers in Tier I cities - especially urban areas like Lucknow (68%), Patna (53%), Ahmedabad (52%), Bhopal (52%), and Ranchi (52%) - show a stronger inclination towards embedded finance.

As for EMI cards, they've emerged the top choice for credit among lower-middle-class borrowers in India, with 43% preferring them for their trustworthiness and faster disbursements.

Credit cards are the preferred option for 24% of borrowers, followed by digital lending apps at 12%.

That said, there's a growing concern about rising defaults on loans. Official data reveals that in the September '24 quarter, five of the eight largest private-sector banks reported an increase in bad loans.

Personal loans and credit cards, in particular, have shown a growth of more than 25%, according to analysts, who have dubbed this situation "exuberance" in retail lending.

However, many experts offer a different perspective. They argue that defaults, as a

percentage of the total middle class, may not be as alarming as it seems. Experts point out that the overall middle class is growing.

Today, the annual disposable income range of the middle class is between ₹5,00,000 and ₹30,00,000, and this segment now constitutes 39% of total households in India, up from 31% in 2021. This growth is primarily due to falling poverty levels and relatively stable GDP growth.

One notable change experts point out is the shift in expectations within the middle class. Today's consumers, particularly the younger generation, have clear and distinct expectations compared to previous generations.

Financial literacy has increased considerably in the country, and unlike older generations, younger people hailing from the middle class are wiser about investing early in the financial markets. They're earning well, which has given them the confidence to purchase premium products.

It's estimated that 65% of the demand for premium products will come from young consumers.

While defaults may occur in a certain section of the middle class, the larger portion is more focused on saving and increasing spending.

And it's this larger section that's likely to play a significant role in driving India's growth over the next 15 to 20 years.



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# SOW TODAY, REAP TOMORROW

Invest for your child's retirement from day one - because why wait for adulthood to plan for golden years?



# R

etirement planning for children is rarely a top priority for parents, who are more often focused on immediate goals such as securing an education fund, building a corpus for a home purchase, setting aside funds for their own retirement, or even allocating a travel budget to fulfill personal aspirations.

Recognizing this, the Government of India introduced an innovative and unconventional product aimed at initiating retirement planning for children from an early stage: the NPS Vatsalya Yojana. Unveiled by the Honourable Finance Minister Nirmala Sitharaman in the Union Budget and officially launched on 18th Sept '24, this scheme allows parents to begin saving for their child's future as early as the birth of their newborn.

The scheme's distinctive approach - encouraging a habit of saving early to harness the power of compounding for wealth creation and financial security - has captured great interest within investment and advisory circles.

For those considering the NPS Vatsalya Yojana, a closer look at its structure and benefits may reveal its potential place within a robust financial plan at this pivotal moment.

## WHAT IS NPS VATSALYA YOJANA?

NPS Vatsalya is a unique financial product designed to address a child's future retirement needs by allowing parents to start investing on their behalf before they turn 18. The product is available to parents from childbirth until the child reaches adulthood. Once the child becomes an adult, the account transitions into a full-fledged NPS Tier 1 account under the All Citizen Model, permitting a seamless and uninterrupted accumulation of savings for retirement. Thus, the NPS Vatsalya Yojana operates as a contributory pension system within the NPS framework.

When the child turns 18, he/she becomes the independent owner of the NPS account, and parents can encourage them to continue contributing, nurturing a habit of early savings and financial discipline. Until they begin earning an income, parents can prompt them to invest any monetary gifts received for birthdays, festivals, or pocket money saved into the NPS account, thus teaching them to avoid frivolous spending and

save for the future. The account matures when the child reaches 60, providing annuity benefits and a lump sum to ensure financial security for their golden years.

For example, if a parent opens an NPS Vatsalya account when the child is 4, the account will mature 56 years later, at age 60. The longevity of the investment is expected to harness the benefits of compounding, aiding in wealth creation and financial security. This scheme is regulated by the Pension Fund Regulatory and Development Authority (PFRDA), and an online platform has been established to facilitate easy account opening.

## SALIENT FEATURES

**Early Start:** The investment in the NPS Vatsalya product can be initiated at the birth of the newborn, right up to the age of 18. This allows parents to start saving at any time during the child's early years.

**Lock-in:** The amount invested in NPS Vatsalya, which transitions to NPS Tier 1, remains locked in until the subscriber reaches the age of 60, the retirement age. Under the NPS, at maturity, the subscriber must use at least 40% of the corpus to purchase an annuity product, while 60% can be withdrawn as a lump sum. The amount withdrawn from NPS is tax-free, but the pension received will be added to the subscriber's income and taxed according to the applicable income tax slab.

**Investment Choices:** The investor has the option to

select between debt and equity investments based on his/her risk appetite, with a maximum of 75% exposure to equity. By offering the flexibility to make investment choices, NPS Vatsalya caters to investors across the risk spectrum.

**Lower Expenses:** The management expenses of NPS Vatsalya are lower compared to mutual funds and other investment products. The product also provides the flexibility to invest in market-linked instruments, unlike traditional pension plans, enabling investors with a high-risk appetite to benefit from market appreciation over the long term.

**Access:** The Vatsalya account can be opened for a minor who is an Indian citizen by his/her parents or guardians. This scheme is also available for NRIs and OCIs, making it accessible regardless of where you reside - an excellent opportunity to secure your child's future.

## BENEFITS

**Early Retirement Planning:** The NPS Vatsalya scheme is designed to build a retirement corpus for the child by starting the investment process early and sustaining it over long periods, allowing the magic of compounding to create wealth. By making the child financially literate from an early age, parents help cultivate the habit of saving, which is invaluable for long-term financial well-being. This would enable the child to enjoy their golden years of retirement without worrying about financial security.

**Flexible Contributions:** The minimum investment size is ₹1,000, with no upper limit, allowing the investor to contribute according to their financial standing. This flexibility will encourage young adults to begin investing, even with relatively small amounts of money.

**Accessibility To The Funds:** The scheme allows parents to withdraw only 25% of the amount after a three-year lock-in period, and withdrawals can be made at any time before the child turns 18. However, withdrawals are permitted only for essential expenses, such as education, treatment of specific illnesses, or for cases where the minor subscriber has a disability of more than 75%, based on a declaration. This restriction ensures discipline, as the funds are not available for other purposes.

**Seamless transition to NPS Tier -1:** The NPS Vatsalya scheme automatically transitions to the NPS Tier-1 account under the All Citizen Model, which is a retirement plan for all citizens. A fresh KYC of the subscriber must be completed within three months of reaching the age of 18. This transition enables continuity, allowing the subscriber to continue growing their retirement corpus with fresh contributions. The NPS Vatsalya scheme provides a Permanent Retirement Account Number (PRAN) for minors, which is used for the transition to NPS Tier-1.

## LIMITATIONS

### Restricted Withdrawals

**Permitted:** The NPS Vatsalya scheme has limited accessibility for withdrawals. Parents can withdraw only 25% of the invested amount after three years, and only if specific conditions are met. This makes NPS Vatsalya suitable only for funds that are not earmarked for immediate needs or other life goals. When the child reaches 18, the account automatically converts to an NPS Tier 1 account, at which point standard NPS rules apply.

If the young adult chooses to exit at 18 or anytime before age 60, 80% of the corpus must be used to purchase an annuity, with the remaining 20% available as a lump sum. However, if the accumulated corpus is less than ₹2,50,000 and no annuity products are available from empanelled providers, the subscriber may withdraw the entire amount. These withdrawal restrictions could limit the scheme's flexibility, particularly if the subscriber faces early retirement due to health or other urgent needs, as the accumulated funds may remain inaccessible during critical times.

**Equity Exposure Capped:** The NPS Vatsalya scheme limits equity exposure to a maximum of 75%, despite being designed to build a retirement corpus over several decades. With such a long-term outlook, equities often prove to be the most effective asset class, given their strong potential for compounding returns over extended periods.

Consequently, this cap on equity exposure could be seen

as a limitation for maximizing growth potential.

**Transition To A Regular NPS Account At A Time When Retirement Planning Is Not A Priority:**

When the minor turns 18, the NPS Vatsalya account automatically converts to a standard NPS account, allowing the young adult to continue making contributions and independently manage the account for retirement planning. While this can foster a habit of long-term financial planning, at this stage in life, the young adult may have more immediate priorities, such as purchasing a vehicle or saving for higher education. Similarly, for parents, other financial goals - such as their own retirement planning -

may take precedence over contributing further to a retirement corpus for their child.

**IN A NUTSHELL**

While retirement planning for a child may seem unusual, this innovative product underscores the advantages of starting early. By leveraging the power of compounding, NPS Vatsalya can help build substantial long-term wealth, increase financial security, and reduce the pressure for high savings later on, giving your child a solid financial head start toward retirement.

However, whether NPS Vatsalya aligns with your financial plan depends on your

current priorities, which may focus more on short- and medium-term priorities. Remember, your own retirement planning should come first. Additionally, the scheme's limited accessibility means investments should be carefully curated to avoid compromising immediate financial goals in favour of long-term ones.

Whether or not NPS Vatsalya is the right choice, disciplined saving and investing toward your financial goals - an objective central to this scheme - remains invaluable. Starting early allows compounding to work in your favour, building wealth over time and supporting a more secure financial future.

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# MUTUAL FUND BLACKBOARD

## Large Cap Funds

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		1 Year	3 Years	5 Years	7 Years	10 Years	
Baroda BNP Paribas Large Cap Fund - Growth	213.4	29.8	14.3	17.2	14.3	13.0	2,349
ICICI Prudential Bluechip Fund - Growth	103.2	28.0	15.7	18.8	14.6	13.7	63,670
Invesco India Largecap Fund - Growth	65.7	30.3	12.4	17.5	13.9	12.8	1,255
Kotak Bluechip Fund - Reg - Growth	539.3	25.7	11.9	16.8	13.7	12.7	9,327
Nippon India Large Cap Fund - Reg - Growth	84.8	28.7	18.4	19.2	14.8	13.9	34,105
Nifty 100 TRI	33120.5	24.8	11.7	16.4	13.8	12.6	--

## Mid Cap Funds

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		1 Year	3 Years	5 Years	7 Years	10 Years	
Edelweiss Mid Cap Fund - Growth	95.5	42.4	22.7	28.9	19.1	18.7	7,677
Mahindra Manulife Mid Cap Fund - Reg - Growth	32.3	36.8	22.5	27.2	--	--	3,341
Mirae Asset Midcap Fund - Reg - Growth	33.8	26.6	16.5	25.0	--	--	16,577
Nippon India Growth Fund - Reg - Growth	3948.3	36.2	23.0	28.7	19.3	17.9	33,922
Tata Mid Cap Growth Fund - Reg - Growth	418.1	30.1	18.7	24.4	17.0	16.4	4,444
Nifty Midcap 150 TRI	25614.7	30.7	20.8	27.6	17.8	18.6	--

## Small Cap Funds

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		1 Year	3 Years	5 Years	7 Years	10 Years	
Edelweiss Small Cap Fund - Reg - Growth	43.1	27.4	21.0	31.7	--	--	4,256
Mahindra Manulife Small Cap Fund - Reg - Growth	19.2	33.1	--	--	--	--	5,220
Quant Small Cap Fund - Growth	258.6	36.6	24.8	44.7	26.0	20.5	26,331
LIC MF Small Cap Fund - Reg - Growth	31.8	40.0	22.2	28.8	17.2	--	386
Nifty Smallcap 250 TRI	21289.2	30.6	21.4	29.9	15.0	15.9	--

## Large & Mid Cap Funds

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		1 Year	3 Years	5 Years	7 Years	10 Years	
Edelweiss Large & Mid Cap Fund - Growth	83.8	30.6	16.0	20.8	16.0	14.6	3,645
Kotak Equity Opportunities Fund - Reg - Growth	324.0	31.0	18.0	20.9	15.8	15.4	25,034
Mahindra Manulife Large & Mid Cap Fund	25.9	23.5	14.1	--	--	--	2,514
Tata Large & Mid Cap Fund - Reg - Growth	511.5	24.9	15.5	18.8	14.9	14.0	8,390
UTI Large & Mid Cap Fund - Growth	171.0	35.9	18.9	23.2	15.1	13.8	3,976
NIFTY Large Midcap 250 TRI	19729.6	27.8	16.3	22.0	15.9	15.7	--

## Multicap Funds

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		1 Year	3 Years	5 Years	7 Years	10 Years	
Bandhan Multi Cap Fund - Reg - Growth	16.4	27.9	--	--	--	--	2,427
HDFC Multi Cap Fund - Reg - Growth	18.1	27.6	--	--	--	--	16,734
HSBC Multi Cap Fund - Reg - Growth	18.0	33.2	--	--	--	--	4,165
Mahindra Manulife Multi Cap Fund - Reg - Growth	33.5	27.8	16.5	23.8	17.1	--	4,735
Nippon India Multi Cap Fund - Reg - Growth	284.3	33.3	23.6	24.1	17.2	14.6	38,678
NIFTY 500 Multicap 50:25:25 TRI	19908.4	27.8	16.5	22.6	15.3	15.1	--



## FlexiCap Funds

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		1 Year	3 Years	5 Years	7 Years	10 Years	
HSBC Flexi Cap Fund - Growth	211.9	35.1	16.7	20.0	13.4	12.9	4,943
ICICI Prudential Flexicap Fund - Reg - Growth	17.9	30.0	17.9	--	--	--	16,768
Mirae Asset Flexi Cap Fund - Reg - Growth	14.7	24.3	--	--	--	--	2,338
Parag Parikh Flexi Cap Fund - Reg - Growth	78.9	28.7	15.2	24.3	19.5	18.0	81,919
WhiteOak Capital Flexi Cap Fund - Reg - Growth	16.2	28.4	--	--	--	--	4,149
S&P BSE 500 TRI	44109.5	26.1	14.0	19.1	14.7	13.8	--

## Focused Funds

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		1 Year	3 Years	5 Years	7 Years	10 Years	
Axis Focused 25 Fund - Growth	52.0	21.4	2.6	11.4	10.9	12.0	13,356
Bandhan Focused Equity Fund - Reg - Growth	84.3	35.4	15.2	17.5	11.7	11.9	1,746
HDFC Focused 30 Fund - Growth	213.5	34.7	23.0	22.3	14.6	13.7	14,969
Nippon India Focused Equity Fund - Reg - Growth	113.3	19.3	12.5	19.5	12.9	13.9	8,477
UTI Focused Fund - Reg - Growth	14.8	22.6	12.2	--	--	--	2,687
S&P BSE 500 TRI	44109.5	26.1	14.0	19.1	14.7	13.8	--

## 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	49.1	34.6	22.7	25.5	15.5	14.7	4,876
Tata Dividend Yield Fund - Reg - Growth	17.2	23.0	14.8	--	--	--	995
Nifty 500 TRI	34766.5	26.4	14.0	19.0	14.6	13.7	--

## 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	143.9	27.7	18.1	25.2	14.7	15.5	10,036
SBI Contra Fund - Growth	371.4	29.7	22.3	29.2	17.8	16.1	40,486
Nippon India Value Fund - Reg - Growth	215.4	34.6	20.0	23.7	16.6	15.8	8,543
S&P BSE 500 TRI	44109.5	26.1	14.0	19.1	14.7	13.8	--

## ELSS Funds

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		1 Year	3 Years	5 Years	7 Years	10 Years	
Bandhan ELSS Tax saver Fund - Reg - Growth	146.0	21.4	14.3	22.0	14.7	15.1	6,900
Kotak ELSS Tax Saver Fund - Reg - Growth	112.7	28.7	15.4	19.7	15.2	14.5	6,148
Mahindra Manulife ELSS Tax Saver Fund - Reg	26.8	20.4	12.3	17.9	11.9	--	925
Parag Parikh ELSS Tax Saver Fund - Reg - Growth	29.9	26.3	16.8	22.7	--	--	4,274
Tata ELSS Tax Saver Fund - Reg - Growth	42.8	27.6	14.5	17.6	13.8	15.0	4,680
Nifty 500 TRI	34766.5	26.4	14.0	19.0	14.6	13.7	--

## Thematic / Sector Funds

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		1 Year	3 Years	5 Years	7 Years	10 Years	
ICICI Prudential Banking and Financial Services	119.9	20.4	11.5	12.0	10.0	13.1	8,851
Nippon India Pharma Fund - Reg - Growth	499.2	35.0	18.2	27.4	20.5	15.0	8,689
Tata Digital India Fund - Reg - Growth	51.6	36.0	10.1	28.2	25.6	--	11,835
ICICI Prudential Business Cycle Fund - Reg - Growth	22.2	32.7	19.5	--	--	--	11,782
Mirae Asset Great Consumer Fund - Growth	89.8	22.6	16.3	19.3	15.8	15.7	4,118
Quant Quantamental Fund - Reg - Growth	22.2	28.4	25.0	--	--	--	2,428
Nifty 500 TRI	34766.5	26.4	14.0	19.0	14.6	13.7	--

## Arbitrage Funds

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		3 Months	6 Months	1 Year	2 Years	3 Years	
Bandhan Arbitrage Fund - Reg - Growth	31.2	7.1	7.2	7.6	7.4	6.1	7,740
Edelweiss Arbitrage Fund - Reg - Growth	18.6	7.1	7.1	7.7	7.5	6.3	12,537
Invesco India Arbitrage Fund - Growth	30.7	7.2	7.2	7.7	7.6	6.6	18,584
Kotak Equity Arbitrage Fund - Reg - Growth	36.0	7.2	7.3	7.9	7.7	6.4	54,941
Tata Arbitrage Fund - Reg - Growth	13.8	7.2	7.2	7.6	7.4	6.1	12,433
Nifty 50 Arbitrage Index	2403.4	6.7	6.7	7.6	7.7	6.4	--

## 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	23.6	13.8	8.6	10.3	9.1	8.7	539
HDFC Equity Savings Fund - Growth	63.1	14.3	9.5	11.1	8.9	9.3	5,463
Kotak Equity Savings Fund - Reg - Growth	24.8	14.9	10.4	10.9	9.6	9.3	7,805
NIFTY 50 Hybrid Composite Debt 65:35 Index	19389.9	16.6	9.5	13.2	12.0	11.0	--

## Index Funds

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		1 Year	3 Years	5 Years	7 Years	10 Years	
HDFC NIFTY Next 50 Index Fund - Reg - Growth	15.7	44.6	15.5	--	--	--	1,713
Motilal Oswal Nifty Midcap 150 Index Fund	35.1	29.5	19.6	26.4	--	--	1,894
Motilal Oswal Nifty Next 50 Index Fund	23.3	44.2	15.5	--	--	--	297
Motilal Oswal Nifty Smallcap 250 Index Fund	36.2	28.9	19.8	28.0	--	--	820
Nippon India Nifty Midcap 150 Index Fund	22.9	29.4	19.6	--	--	--	1,590
Tata Nifty Midcap 150 Momentum 50 Index Fund	18.0	36.8	--	--	--	--	633
Nifty 500 TRI	34766.5	26.4	14.0	19.0	14.6	13.7	--

## Dynamic Asset Allocation Funds

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		1 Year	3 Years	5 Years	7 Years	10 Years	
Edelweiss Balanced Advantage Fund - Growth	48.7	19.6	10.4	14.6	12.0	10.7	12,306
HDFC Balanced Advantage Fund - Growth	492.8	24.9	20.5	19.7	14.9	14.0	94,866
Nippon India Balanced Advantage Fund - Reg	167.4	19.4	11.0	12.4	10.2	9.9	8,750
Tata Balanced Advantage Fund - Reg - Growth	19.8	16.5	10.5	12.8	--	--	10,288
NIFTY 50 Hybrid Composite Debt 65:35 Index	19389.9	16.6	9.5	13.2	12.0	11.0	--

## Hybrid Aggressive Funds

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		1 Year	3 Years	5 Years	7 Years	10 Years	
Baroda BNP Paribas Aggressive Hybrid Fund	27.0	25.0	13.0	15.9	13.9	--	1,169
Kotak Equity Hybrid Fund - Growth	59.6	26.4	13.9	17.9	13.8	12.7	6,606
Mirae Asset Aggressive Hybrid Fund - Reg - Growth	30.2	20.3	10.4	14.4	12.1	--	9,025
Tata Hybrid Equity Fund - Reg - Growth	423.6	20.9	11.4	14.1	10.9	10.6	4,137
NIFTY 50 Hybrid Composite Debt 65:35 Index	19389.9	16.6	9.5	13.2	12.0	11.0	--

## Multi Asset Allocation Funds

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		1 Year	3 Years	5 Years	7 Years	10 Years	
HSBC Multi Asset Allocation Fund - Reg - Growth	11.5	--	--	--	--	--	2,053
Mirae Asset Multi Asset Allocation Fund	11.1	--	--	--	--	--	1,729
Nippon India Multi Asset Fund - Reg - Growth	19.8	25.5	13.9	--	--	--	4,500
Tata Multi Asset Opportunities Fund - Reg - Growth	22.0	21.0	12.4	--	--	--	3,410
UTI Multi Asset Allocation Fund - Growth	70.2	27.6	16.5	15.2	11.2	9.6	4,416
WhiteOak Capital Multi Asset Allocation Fund	12.8	20.1	--	--	--	--	938
NIFTY 50 Hybrid Composite Debt 65:35 Index	19389.9	16.6	9.5	13.2	12.0	11.0	--

**Gold Funds**

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		1 Year	3 Years	5 Years	7 Years	10 Years	
HDFC Gold Fund - Growth	23.0	22.4	14.0	13.3	13.5	9.6	2,795
Kotak Gold Fund - Reg - Growth	29.6	22.6	13.6	13.3	13.2	9.6	2,305
Nippon India Gold Savings Fund - Reg - Growth	29.5	22.9	13.9	13.2	12.8	9.5	2,237
Prices of Gold	75564.0	24.5	15.5	14.7	14.3	11.0	--

**Overnight Funds**

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		2 Weeks	1 Month	3 Months	1 Year	YTM	
Bandhan Overnight Fund - Reg - Growth	1322.0	6.2	6.2	6.3	6.6	6.3	1,146
Tata Overnight Fund - Reg - Growth	1308.1	6.2	6.2	6.3	6.6	6.3	4,311

**Liquid Funds**

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		2 Weeks	1 Month	3 Months	1 Year	YTM	
HDFC Liquid Fund - Growth	4912.2	6.8	6.8	7.0	7.3	7.1	67,331
Mahindra Manulife Liquid Fund - Reg - Growth	1629.2	6.9	6.9	7.0	7.4	7.1	1,322
Nippon India Liquid Fund - Reg - Growth	6110.0	6.8	6.8	7.0	7.3	7.1	32,210

**Ultra Short Funds**

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		3 Months	6 Months	1 Year	3 Years	YTM	
ICICI Prudential Ultra Short Term Fund - Growth	26.5	7.2	7.2	7.4	6.2	7.5	14,207
Kotak Savings Fund - Reg - Growth	41.0	7.0	7.0	7.2	6.0	7.4	12,502

**Money Market Funds**

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		3 Months	6 Months	1 Year	3 Years	YTM	
HDFC Money Market Fund - Growth	5454.1	7.3	7.4	7.6	6.4	7.4	27,987
Tata Money Market Fund - Reg - Growth	4504.4	7.3	7.4	7.7	6.5	7.3	26,783

**Low Duration Funds**

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		3 Months	6 Months	1 Year	3 Years	YTM	
HDFC Low Duration Fund - Growth	55.2	7.3	7.4	7.4	6.0	7.8	17,719
Kotak Low Duration Fund - Std - Growth	3195.9	7.5	7.4	7.3	5.8	7.7	11,241
Nippon India Low Duration Fund - Reg - Growth	3574.1	7.5	7.3	7.4	5.9	7.6	7,894

**Short Term Funds**

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		3 Months	6 Months	1 Year	3 Years	YTM	
ICICI Prudential Short Term Fund - Growth	57.1	7.6	8.1	7.9	6.4	7.8	19,923
Nippon India Short Term Fund - Reg - Growth	50.0	7.7	8.2	8.0	5.8	7.6	7,586

**Corporate Bond Funds**

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		3 Months	6 Months	1 Year	3 Years	YTM	
Kotak Corporate Bond Fund - Std - Growth	3579.2	8.0	8.6	8.3	6.1	7.4	14,163
SBI Corporate Bond Fund - Reg - Growth	14.7	8.0	8.3	7.9	5.7	7.5	20,571

**Dynamic Bond Funds**

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		3 Months	6 Months	1 Year	3 Years	YTM	
HDFC Dynamic Debt Fund - Growth	85.7	6.0	8.9	9.0	5.3	7.1	787
Kotak Dynamic Bond Fund - Reg - Growth	35.8	5.9	10.1	9.7	5.8	7.2	2,971

**Medium Duration Funds**

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		3 Months	6 Months	1 Year	3 Years	YTM	
HSBC Medium Duration Fund - Reg - Growth	19.3	7.1	8.0	8.3	5.7	7.7	843
ICICI Prudential Medium Term Bond Fund - Growth	42.4	8.0	8.4	8.1	6.2	8.1	5,917
SBI Magnum Medium Duration Fund - Growth	48.6	7.4	8.3	8.0	6.0	7.7	6,689

**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	17.1	6.2	10.3	11.4	6.5	7.0	8,968

**Gilt Funds**

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		3 Months	6 Months	1 Year	3 Years	YTM	
Bandhan Government Securities Fund Investment Plan	33.9	4.1	9.5	11.2	5.9	7.1	3,207
Kotak Gilt Fund - Growth	92.5	5.0	8.8	8.7	5.6	7.0	4,084

**Gilt Funds 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 Growth	23.2	7.0	9.5	9.4	5.5	7.0	2,443

**Credit Risk Funds**

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		3 Months	6 Months	1 Year	3 Years	YTM	
ICICI Prudential Credit Risk Fund - Growth	30.1	7.5	9.4	8.7	6.8	8.5	6,387
SBI Credit Risk Fund - Growth	43.3	6.9	8.3	7.9	6.7	8.6	2,311

**Banking & PSU Bond Funds**

SCHEME NAME	NAV	Historic Return (%)					AUM (Cr)
		3 Months	6 Months	1 Year	3 Years	YTM	
HDFC Banking and PSU Debt Fund - Reg - Growth	21.9	7.8	8.1	7.9	5.8	7.4	5,809
HSBC Banking and PSU Debt Fund - Growth	23.0	7.2	7.3	7.3	4.9	7.4	4,491

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# TECHNICAL OUTLOOK

# D

al Street investors, Nifty has shed over 3,000 points in just seven weeks of trading sessions. Last month, it recorded its steepest correction since the Covid-led fall of March '20, driven by a disappointing Q2 earnings season and the highest-ever monthly selling by FIIs. We must closely watch whether Nifty will sustain its double-digit gains this year. The market is becoming a stock picker's market.

Nifty clocked solid gains over the past two sessions, climbing nearly 4%. However, we anticipate selling pressure following the recent gains due to the absence of fresh triggers, concerns over foreign capital outflows, subdued Q2 earnings, and ongoing geopolitical tensions.

Technically, the Nifty managed to find support at the 200-DMA and staged a bounce-back rally. This rally could potentially extend toward the 100-DMA, i.e. around the 24,700 mark. On the flip side, Nifty has strong support at 23,620, provided by the 200-DMA. A close below this level could trigger fresh selling, potentially driving the

index toward 23,000 or even 22,800.

The momentum indicator RSI shows that Nifty is trading below the 49 mark and is approaching the oversold zone, reducing the likelihood of a substantial sell-off while increasing the anticipation of a bounce-back rally.

Given this setup, traders and investors are advised to avoid taking major short positions and instead focus on stock-specific trades with strict stop-losses.

Technically, the Bank Nifty faces immediate resistance at 52,600. A close above this level could extend the upward rally toward 53,400 or even 54,000. On the flip side, support is positioned at 51,700 and 50,800.

On the Nifty options front for the December series, the highest open interest (OI) buildup is witnessed near the 24,000 and 25,000 Call strikes, while on the Put side, it is seen at the 24,000 and 23,000 strikes.

The markets have seen a sharp pullback after a healthy correction in the November series. Going forward, once the Nifty stabilizes above the 24,500 mark, buyers are likely to become more aggressive towards the 25,000-25,200 range. The Automobile, Realty, and IT sectors look positive for the upcoming December series, and we expect short covering in these sectors

during the period.

India VIX, which measures the immediate 30-day volatility in the market, has remained highly volatile during the November series, with a range of 14 to 20. We expect the VIX to stay within the same range for the December series.

The Put Call Ratio-Open Interest (PCR-OI) for Nifty Options has been in the range of 0.6-1.20 in November. Going forward, it is expected to remain between 0.7 and 1.4 in the coming month.

The markets are likely to witness fresh buying action in the December series with resistances placed at 24,500 and 24,800 levels. Also, important support is expected at 23,800 and 23,500 levels.

## OPTIONS STRATEGY

### Long Strangle

It can be initiated by 'Buying 1 lot 12DEC 24500 CE (₹170) and Buying 1 lot 12DEC 24000 PE (₹170)'. The total outflow of premium comes to around 340 points, which is also your maximum loss. One can keep a SL at 200 points (140 point loss from total premium). The maximum gain is unlimited; one can place the Target at 600 points (260 points gain from total premium). After the range of 24,500 - 24,000 gets broken, heavy range shifting will be seen due to which our strategy will witness decent profits once the Nifty moves 500 - 600 points in either direction.

# NO SHORTCUTS, JUST HARD TRUTHS

Riding the economic rollercoaster, Howard Marks reveals the hard truths about why adhering to fundamental principles is critical for long-term stability

TRUTH

If you're a diehard fan of Howard Marks, don't miss his latest memo: "Shall we repeal the laws of economics?" It's a compelling reminder of the importance of adhering to economic fundamentals, the inevitability of trade-offs, and the superior performance of free markets over command economies.

Through real-world examples and candid insights, Marks challenges policymakers and investors alike to acknowledge the harsh realities of economic decision-making. This article explores six critical points from Marks' analysis, illustrating why respecting economic principles is not just prudent but essential for sustainable prosperity. Let's dive into the essence of his arguments and understand why these principles are as relevant today as ever.

## 1. Economic Principles Matter

In his influential memo, Howard Marks underscores the foundational importance of adhering to economic principles. These principles, he argues, are not mere academic abstractions but essential guidelines governing how economies function.

Marks asserts, "Economic principles are like the laws of physics - they can't be repealed." This analogy powerfully conveys the immutable nature of economic laws, suggesting that attempts to bypass them are as futile as trying to defy gravity.

Economic principles dictate how resources are allocated, how prices are set, and how markets operate. They ensure that economic activities are carried out efficiently and sustainably. Marks stresses that these principles should not be overridden for political gain, as doing so can lead to significant economic distortions.

"Ignoring economic principles for short-term political expediency is akin to ignoring the laws of nature," he notes. This statement reflects his view that economic laws are fundamental to the stability and prosperity of societies.

One of the key economic principles Marks discusses is the law of supply and demand, which states that the price of a good or service is determined by its supply and demand relationship. When supply exceeds demand, prices fall; when demand

exceeds supply, prices rise.

This straightforward yet powerful concept ensures efficient resource allocation. He argues that attempts to manipulate this natural balance through artificial means, such as price controls, can lead to severe economic imbalances.

Marks also emphasizes the importance of fiscal responsibility, urging governments to manage their finances prudently and avoid excessive borrowing and spending. "Fiscal irresponsibility undermines economic stability and erodes public trust," he warns.

This warning is especially relevant today as many governments are grappling with high levels of debt. By adhering to sound fiscal principles, Marks believes economies can achieve long-term stability and growth.

## 2. No Free Lunch

The concept of "No Free Lunch" is a central theme in Marks's memo. He highlights that every economic decision involves trade-offs, and there are no costless benefits. "In economics, there's no such thing as a free lunch," Marks asserts, underscoring the inevitability of trade-offs.

This principle is rooted in the fundamental concept of opportunity cost - the value of the next best alternative that is forgone when a decision is made.

Marks illustrates this with the example of government

subsidies. While subsidies may provide short-term relief to certain industries, they often come at the cost of higher taxes or reduced spending in other areas.

“Subsidies can distort market signals and lead to inefficiencies,” he notes. By disrupting the natural functioning of markets, subsidies can result in resource misallocation and hinder long-term economic growth.

Marks also discusses the trade-off between inflation and unemployment, where policymakers often face the dilemma of choosing between measures that reduce inflation and those that lower unemployment. Expansionary policies, such as lowering interest rates or increasing government spending, can reduce unemployment but may lead to higher inflation.

Conversely, contractionary policies aimed at controlling inflation may result in higher unemployment. Marks argues that policymakers must carefully weigh these trade-offs to achieve balanced, sustainable economic outcomes.

He warns against the allure of populist policies that promise quick fixes without addressing the underlying trade-offs. “Politicians often make promises that sound appealing but ignore the economic realities,” he states. Such policies, Marks argues, can lead to unintended consequences and undermine long-term economic stability.

By recognizing and managing

trade-offs, policymakers can make informed decisions that balance short-term gains with long-term sustainability.

### 3. Free Markets Work

Marks makes a compelling case for the efficacy of free markets, arguing that they generally lead to better outcomes than command economies. “Free markets harness the self-interested decisions of millions of individuals to create wealth and drive innovation,” he states, capturing the essence of a system where individual choices and competition drive economic progress.

In a free market, prices are determined by the forces of supply and demand, and resources are allocated based on these market signals. Marks argues that this decentralized decision-making process leads to greater efficiency and innovation. “Competition fosters innovation by incentivizing firms to improve their products and services,” he notes. By contrast, command economies, where economic activities are centrally planned and controlled, often suffer from inefficiencies and a lack of innovation.

Historical evidence supports Marks’ argument. For instance, the economic success of countries like the United States, which embrace free-market principles, contrasts sharply with the struggles of centrally planned economies, such as the former Soviet Union. Marks points out, “The Soviet Union’s command economy failed to

deliver prosperity and ultimately collapsed under its own inefficiencies,” illustrating the shortcomings of command economies and the superiority of market-based systems.

Moreover, Marks emphasizes that free markets are inherently adaptable. They can quickly respond to shifts in consumer preferences, technological advancements, and other economic conditions. This adaptability is a key strength, enabling free markets to thrive in a dynamic, ever-changing environment. “Free markets are resilient and capable of adjusting to new realities, whereas command economies are often rigid and slow to adapt,” he concludes.

### 4. Political Promises Versus Economic Reality

One of the critical insights from Marks’ memo is the disconnect between political promises and economic realities. Politicians, driven by the need to win elections and maintain public support, often make promises that sound appealing but are economically unsustainable. “Political rhetoric often ignores economic fundamentals, leading to policies that are detrimental in the long run,” Marks argues.

For instance, politicians may promise to reduce taxes while simultaneously increasing public spending. While popular with voters, this approach often leads to higher budget deficits and increased public debt. Marks highlights the dangers of such policies, stating, “Fiscal irresponsibility can lead to economic



instability and undermine public trust in government institutions.”

Marks also discusses the issue of price controls. Politicians may implement price controls to make essential goods more affordable, but such measures often lead to unintended consequences, like shortages and black markets. “Price controls distort market signals and result in inefficiencies,” he notes. By interfering with the natural workings of markets, price controls can worsen the very problems they aim to address.

Additionally, Marks emphasizes the importance of transparency and honesty in political discourse. He argues that policymakers should be upfront about the trade-offs and costs associated with their decisions. “Honesty in political communication is essential for building public trust and making informed decisions,” Marks asserts. By acknowledging economic realities and engaging in honest discussions, policymakers can foster a more informed and resilient society.

## 5. Command Economies Fail

Marks provides a detailed analysis of the failures of command economies, drawing on historical examples to illustrate their shortcomings. Command economies, characterized by centralized planning and control, often fail to deliver the desired economic outcomes, leading to inefficiencies and stagnation.

“Command economies suffer from fundamental flaws that prevent them from achieving sustainable prosperity,” Marks states.

One of the primary issues with command economies is their lack of responsiveness to market signals. In a free market, prices act as indicators of supply and demand, guiding the allocation of resources. However, in a command economy, prices are often set by the government, resulting in mismatches between supply and demand.

“Central planning cannot replicate the efficiency of market-based resource allocation,” Marks explains. This inefficiency leads to surpluses of unwanted goods and shortages of essential items, ultimately hindering economic growth.

Historical evidence supports Marks’ argument. The Soviet Union, for example, experienced chronic shortages and inefficiencies despite its vast natural resources and industrial base. Central planning failed to account for the complexities of a modern economy, leading to waste and misallocation.

Marks notes, “The Soviet Union’s command economy was a textbook example of how central planning can fail to meet the needs of its citizens.”

Similarly, Maoist China’s Great Leap Forward aimed to rapidly industrialize the country but resulted in widespread famine and economic disruption due to unrealistic production

targets and poor planning.

Marks points out, “The Great Leap Forward demonstrated the dangers of centralized control and the importance of market mechanisms.”

Furthermore, command economies often stifle innovation. In a free market, competition drives innovation as firms strive to outdo each other and capture market share, leading to technological advancements and improved products and services. In contrast, command economies lack the competitive pressures that spur innovation.

Marks asserts, “Without the incentive to innovate, command economies become stagnant and fall behind more dynamic market-driven economies.”

## 6. Inevitable Trade-Offs

The concept of “Inevitable Trade-Offs” is central to Marks’ analysis of economic policy. He argues that every economic decision involves trade-offs and that ignoring these can lead to unintended negative consequences.

“Every choice in economics comes with a cost, and understanding these trade-offs is essential for sound decision-making,” Marks states.

Trade-offs arise because resources are limited, while human wants are virtually unlimited. This scarcity means that choosing one course of action often requires forgoing another. For instance, allocating funds to healthcare

may reduce spending on education or infrastructure.

"Economic trade-offs are inherent in every decision, and policymakers must carefully balance the costs and benefits," Marks explains.

Ignoring trade-offs can lead to significant economic distortions. For example, stimulating an economy through excessive borrowing may provide immediate benefits but can also result in mounting debt and financial instability.

"The allure of short-term gains often overshadows the need for long-term economic health," Marks warns.

Marks also emphasizes the importance of recognizing and managing trade-offs in policy-making.

He argues that policymakers must be transparent about the costs and benefits of their decisions. "Honest communication about trade-offs is essential for informed decision-making and public trust," Marks asserts.

## IN A NUTSHELL

In conclusion, Howard Marks' memo serves as a powerful reminder that economic principles are timeless and non-negotiable.

By recognizing inevitable trade-offs, respecting free-market dynamics, and avoiding political shortcuts, policymakers and investors can ensure sustainable prosperity, fostering long-term stability and growth in both economic systems and societies.



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# IMPORTANT JARGON

## SEBI Allows Mutual Funds To Invest In Foreign Funds With Exposure To Indian Securities

On 4th November, the Securities and Exchange Board of India (SEBI) issued a circular allowing mutual funds to invest in units of overseas funds with less than 25% exposure to Indian equities. This provides significant benefits to both fund houses and individual investors.

### Q. What Are The New Norms Regarding Investments by Domestic Mutual Funds In Overseas Funds?

On 17th May, SEBI floated a consultation paper proposing a framework to facilitate investments by domestic mutual funds in overseas funds with Indian exposure. The circular issued on 4th November builds upon this paper. While the paper had proposed a limit of up to 20%, the final regulation sets the limit at 25%. Simply put, Indian mutual funds can now invest in units of overseas funds with less than 25% exposure to Indian equities.

### Q. Why Is the Limit Set At 25% For Overseas Funds With Indian Exposure?

Certain global funds include Indian assets as a component of their schemes, alongside assets from other markets. However, if such a fund has significant exposure to Indian securities, it defeats the purpose of making an overseas investment. Moreover, why would an Indian investor seeking exposure to Indian assets take a roundabout route through overseas funds? It would simply not be cost-effective. Hence, the need for a cap.

### Q. How Will The New Norms Benefit Local Fund Houses And The Industry?

There was some ambiguity in the regulations regarding

investments in overseas funds with some Indian exposure. The new rule resolves this issue.

Mutual funds can now mobilize more funds for overseas investments, supported by the clarity provided by SEBI. The updated norms will also enhance regulatory transparency and strengthen risk management practices within the industry. Additionally, the revised regulation minimizes the risk of round-tripping of money and promotes greater transparency.

### Q. What Is Hindering the Mobilization of More Funds For Overseas Investments by Local Mutual Funds?

Overseas investment limits are regulated by the Reserve Bank of India (RBI). Currently, mutual funds in India are permitted to invest only up to US \$7 billion into the foreign stocks, and up to US \$1 billion into exchange traded funds

(ETFs) listed abroad. These limits have been in place since 2008. As per data, India's mutual fund industry currently holds ~ ₹75,000 crore in overseas equity investments, which include international fund of funds (FOFs), direct equities, international ETFs, and other equity schemes.

Notably, Indian mutual funds' overseas investments were suspended on 1st Feb '22, when the \$7 billion industry cap was breached. At present, the headroom for overseas investments is very low. But with India's forex reserves at record levels, there is growing sentiment within the mutual fund industry that the RBI should revisit these caps.

#### **Q. What Are The Other Conditions Set By SEBI?**

The total exposure of overseas funds to Indian securities must not exceed 25% of their net assets and must be maintained on a continuous basis. If the exposure exceeds 25%, fresh investments in such overseas funds will be halted, and the Indian mutual fund scheme will be required to rebalance the assets. If rebalancing is not carried out, the Indian mutual fund scheme will be liquidated.

#### **Q. How Will Investors Benefit From The Updated Rules?**

Overseas investments provide diversification for domestic investors and enhance risk management by lowering the correlation between local markets. This can contribute to improved returns in a portfolio. That said, overseas investments are best suited for seasoned investors who are already optimally invested in

the domestic market. Retail investors who are just beginning their investment journey should avoid considering overseas investments.

#### **RBI RETAINS LIST FOR 'TOO BIG TO FAIL' BANKS**

Recently, the Reserve Bank of India (RBI) retained State Bank of India, HDFC Bank, and ICICI Bank as Domestic Systemically Important Banks (D-SIBs). Systemically Important Banks (SIBs) are deemed "Too Big to Fail," signifying that their proper functioning is essential for the stability of the overall economy.

#### **Q. What Is The Genesis Of Bucketing Big Banks As D-SIBs?**

The RBI introduced a framework for categorizing D-SIBs from within commercial banks in July '14. Since 2015, the RBI has been disclosing the names of banks classified as D-SIBs annually.

Notably, the RBI designated SBI and ICICI Bank as D-SIBs in 2015 and 2016, respectively, while HDFC Bank was added to the list in 2017. Since then, the list has remained unchanged. The current classification is based on data as of 31st Mar '24.

#### **Q. Why Was There A Need To Announce D-SIBs?**

The modern financial system is highly interconnected and interdependent. The failure of a few financial institutions can trigger a domino effect, impacting the stability of the entire financial system. This was evident during the global

financial crisis of 2008, when governments in the West had to bail out some of these "too big to fail" institutions. The Financial Stability Board (FSB), a global body that facilitates coordination between financial authorities at the global level, recommended a framework for Globally Systemically Important Banks (G-SIBs). Additionally, the FSB recommended extending the G-SIB framework to Domestic Systemically Important Banks.

#### **Q. What Is The Methodology For Classifying A Big Bank As A D-SIB?**

The RBI follows a two-step process to classify a bank as a D-SIB: first, it selects a sample size and then assigns scores based on the bank's importance to the system.

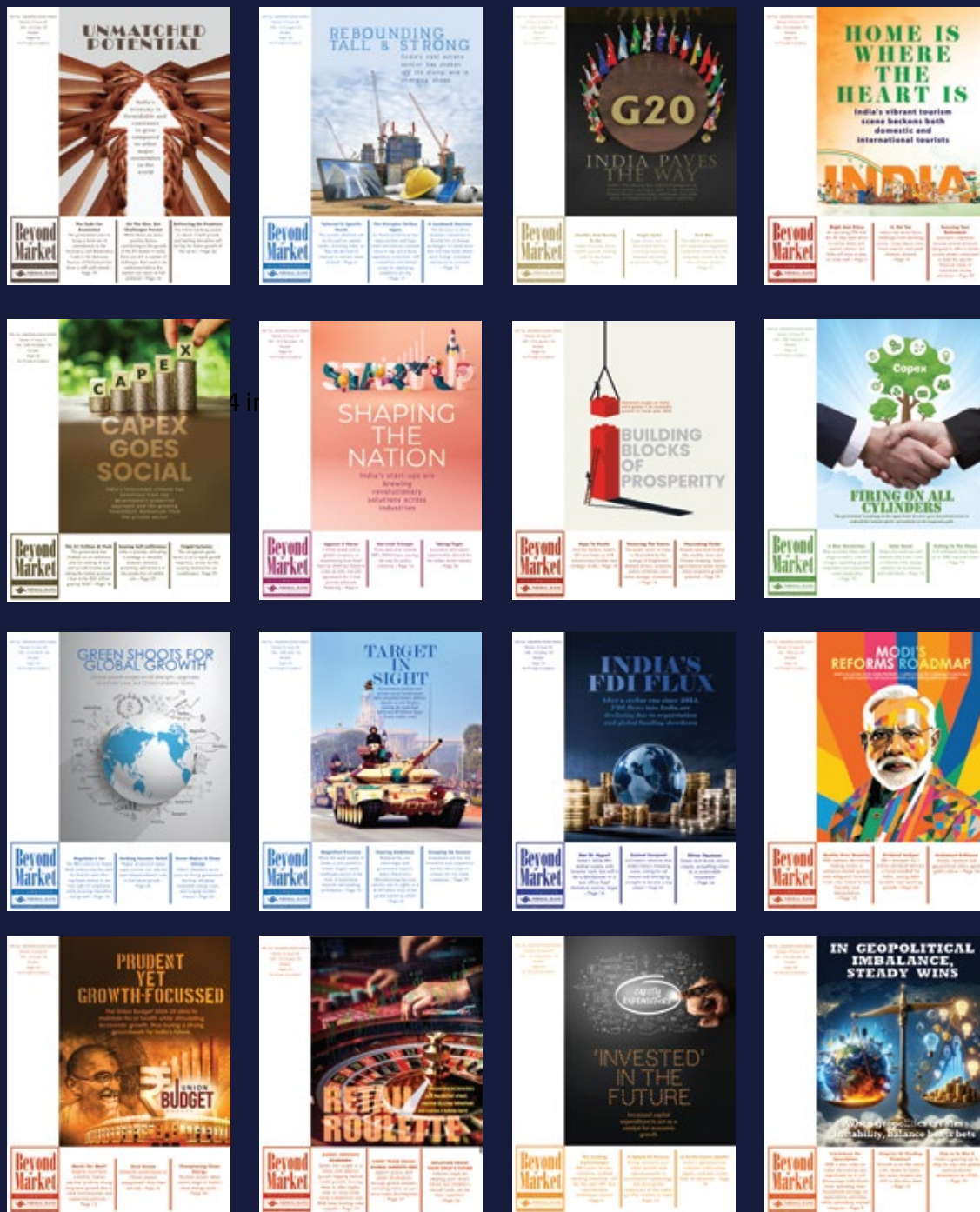
After selection, the RBI uses indicators such as size, interconnectedness, substitutability, and complexity to compute scores for these banks. The selection methodology is reviewed at least once every three years.

#### **Q. What Are The Regulatory Requirements For D-SIBs?**

Once classified as a D-SIB, banks are subject to additional regulatory and supervisory requirements. An additional common equity requirement is mandated for D-SIBs, ranging from 0.20% to 0.80% of the banks' risk-weighted assets.

According to the current D-SIB list, the additional common equity tier 1 (CET1) requirement as a percentage of Risk Weighted Assets (RWAs) is 0.80% for SBI, 0.40% for HDFC Bank, and 0.20% for ICICI Bank.





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