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DAILY NEWS DIGEST BY BFSI BOARD

29 July 2024

ECONOMY

FPIs flood equities in July, brushing off Budget tax hits: Foreign Portfolio Investors (FPIs) continued to keep their buying interest in Indian equities in July despite the recent Budget induced speed breaker of hike in capital gains tax on listed equities as well as an increase in Securities Transactions Tax (STT) on F&O trades. So far this month (up to July 26), FPIs have net invested in Indian equities ₹33,688 crore, higher than June 2024 net inflows of ₹26,565 crore, data with depositories showed. In May 2024, FPIs net sold ₹25,586 crore on poll jitters (results were out on June 2). In April 2024, the FPIs sold over ₹8,700 crore on rising U.S. bond yields and concerns over a tweak in double taxation avoidance treaty with Mauritius. Expecting a slew of reform measures in Union Budget, FPIs had bought equities worth about ₹18,000 crore between July 12 and 22However, post the Budget announcement on July 23, FPIs had pulled out nearly ₹8,100 crore in four trading sessions after the government this past week hiked capital gains tax on listed equities as well as STT in F&O..
(Business Line)

Govt seeks industry inputs on indicators, questions for new World Bank survey: In support of the World Bank's flagship 'Business Ready' (B-READY) project, which will replace the group's Doing Business survey that ran into trouble after data irregularity reports in 2020, India has started evaluating the indicators and questions related to the new framework, including those on international trade, and has sought inputs from the industry for the same, sources said. The B-READY project, which will benchmark the business environment and investment climate across various economies and is projected as a more balanced and transparent approach than previous ones, is being evaluated by the Indian government and industry for formulation of suitable responses to the questionnaires. "The Department of Commerce is at present evaluating the indicators and questions on international trade within the B-READY framework and has asked various industry sectors to give

their inputs on the matter by the month-end. Similarly, the evaluation of other aspects is being done by other concerned Ministries and Departments," an industry source tracking the matter told.
(Business Line)

BANKING & FINANCE

Shriram Capital gets RBI nod to launch ARC, says Umesh Revankar: Chennai based Shriram Capital has received in-principle approval for its asset reconstruction company (ARC) from the Reserve Bank of India (RBI), Umesh Revankar, Executive Vice Chairman of Shriram Finance said. In an interaction with Moneycontrol, Revankar said that the company, after receiving the approval, is working internally on the operations side. "We have got the in-principle approval recently and now we will look at working internally for the next two quarters on the business side," Revankar said. We still have nothing to decide on who will head the ARC, but the group, i.e. Shriram Group and not Shriram Finance exclusively, will look at the options, he said. The company had submitted the application to the Reserve Bank of India (RBI) in November 2023. The ARC will be a 100 percent subsidiary of Shriram Capital, Revankar said.
(Moneycontrol)

Banks borrow more than they raise deposits to fund loan demand: In early July, Indian banks borrowed a record Rs 1.19 lakh crore from the market due to challenges in attracting deposits, which totaled Rs 1.02 lakh crore. The Reserve Bank of India data revealed this borrowing trend as a result of the budget's lack of deposit-attracting measures. Total bank borrowings reached Rs 8.83 lakh crore, influenced by the HDFC and HDFC Bank merger. This includes short-term debt, infra bonds, and overseas loans but excludes RBI loans. The State Bank of India raised Rs 10,000 crore through infrastructure bonds. Experts cautioned that an aggressive move to increase deposits could lead to a rate war and widen the credit-deposit gap, causing liquidity and repricing risks. However, the situation has been improving with the RBI's large dividend transfer.
(Economic Times)

Yes Bank in stake sale talks to give exit to its lenders: Private sector lender Yes Bank is working towards giving an exit to its current shareholders, particularly State Bank of India (SBI), managing director and chief executive Prashant Kumar told ET. Kumar also confirmed that the lender is in talks with potential investors for selling its stake.
(Economic Times)

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INDUSTRY OUTLOOK

Khadi Gramodyog's business crosses ₹1.5 lakh crore, says Modi in Mann Ki Baat: The Prime Minister, ahead of National Handloom Day on August 7, said, "The Khadi Gramodyog's business has crossed ₹1.5 lakh crore for the first time" which is due to 400 per cent increase in its sale.

(Business Line)

Investment in equity MFs surge 5-fold to Rs 94,151 crore in June quarter, total AUM jumps 59%: AMFI data: Investment in equity mutual funds surged over five-fold to Rs 94,151 crore in the June 2024 quarter against Rs 18,358 crore a year ago. This has also pushed the industry's assets under management (AUM) by 59 percent to Rs 27.68 lakh crore in June from Rs 17.43 lakh crore a year ago, data from the Association of Mutual Funds in India (AMFI) showed. The robust gain in the asset base was also replicated in the growth of investors in equity mutual funds, with the number of folios closing at 13.3 crore, adding an investor base of over 3 crore. The significant gain in equity folios indicates broader participation across investor segments, driven by improved financial literacy and accessible investment platforms, Trivesh D, COO of stock trading platform Tradejini, told PTI. The inflow was driven by a strong economic environment, supportive government fiscal policies, investors' confidence and robust stock return. The investment witnessed a 32 percent increase from Rs 71,280 crore witnessed in the preceding March 2024 quarter.

(Business Today)

India should grow at 7-10% for 20-30 yrs to avoid middle income trap: NITI: India needs to grow at a sustained pace of 7-10 per cent for 20-30 years to escape the middle-income trap and become a developed nation with a per capita income of $18,000 per annum and the size of a $30 trillion economy by 2047 when the country celebrates its centenary anniversary of independence, the NITI Aayog (National Institution for Transforming India) said in an approach paper summarising its vision for 'Viksit Bharat'. "The GDP would have to grow 9 times from today's $3.36 trillion and the per capita income would need to rise 8 times from today's $2,392 per annum," the government's think tank said after its 9th Governing Council meeting attended by chief ministers and lieutenant governors.

(Business Standard)

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REGULATION & DEVELOPMENT

Not all residents leaving India require tax clearance certificates: FinMin: The mandate to obtain tax clearances for residents leaving India is not for everyone, the finance ministry clarified on July 28. "As per section 230 of the Income-tax Act, 1961, every person is not required to obtain a tax clearance certificate. Only in the case of certain persons, in respect of whom circumstances exist which make it necessary to obtain a tax clearance certificate will be required to obtain such certificate," the ministry said. The Budget for 2024-25 introduced a few amendments for those planning to move abroad from India. The ministry added that only in certain cases would an individual need to obtain such a tax clearance. Where the person is involved in serious financial irregularities and his presence is necessary in investigation of cases under the Income-tax Act or the Wealth-tax Act and it is likely that a tax demand will be raised against him. Where the person has direct tax arrears exceeding Rs 10 lakh which have not been stayed by any authority.
(Moneycontrol)

Capital gains is the fastest growing income class, can be taxed higher: Finance Secretary TV Somanathan : Capital gains is the fastest growing income class in India; it deserves to be taxed at a higher rate, on the grounds of raising revenues for the government as well as equity and fairness, Dr TV Somanathan, Finance Secretary, said today. In a conversation with Raghuvir Srinivasan, Editor, businessline, at a post-budget discussion organized by the newspaper today, Somanathan said that the increase in capital gains taxes was motivated by three factors. The “primary motivation” was to simplify the tax structure. Earlier, there were varied rates for different asset classes and different periods of holding the assets. Now, in response to calls for simplification, the structure has been simplified. The taxes are 12.5 per cent for all long-term capital gains and the duration for qualifying for long-term, is one year for listed securities and two for unlisted.
(Business Line)

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FINANCIAL TERMINOLOGY

SUNK COST DILEMMA

- Sunk costs are irrecoverable costs that have already been incurred and are independent of any happenings in the future. Dilemma of whether to continue a project with obscure prospects, which has already absorbed a considerable amount of sunk cost, is known as sunk cost dilemma.
- In a sunk cost dilemma, one can neither walk away from the project as a considerable amount has already been spent on it and nor can s/he continue with the project and risk spending more money that might never be recovered. Investors usually face such a predicament when market conditions change dramatically in the middle of a project.

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RBI KEY RATES

Repo Rate: 6.50%
SDF: 6.25%
MSF & Bank Rate: 6.75%
CRR: 4.50%
SLR: 18.00%
Fixed Reverse Repo: 3.35%

FOREX (FBIL 1.30 PM)

INR / 1 USD : 83.7272
INR / 1 GBP : 107.6776
INR / 1 EUR : 90.8596
INR /100 JPY: 54.4800

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