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The Finance Newsletter
Of
NMIMS HYDERABAD

Flood Inflation

Sovereign Gold Bonds

FED Leads the way

FUN Q&A

MARKET UPDATES

After a week of rising Indian indices, **Friday saw a sharp decline, with the Sensex dropping by 886 points to close at 80,982, the Nifty 50 falling by 294 points to 24,718, and the Bank Nifty dipping by 214 points to close at 51,350**. Several multinational companies reported their earnings this week, with some key highlights listed below: -

TATA Motors: The company reported a consolidated net profit increase of 72.4% YoY to ₹5,692 crores, with revenue rising 5.7% YoY to ₹1,08,048 crores for Q1 FY2025. EBITDA was up 14.4% YoY to ₹15,509 crores, beating street estimates of ₹15,266.08 crores, and margins expanded by 109 basis points to 14.35% YoY. The company's stock price touched a 52-week high of ₹1,179 per share on 30th July 2024, and closed at ₹1,095 per share on Friday, 2nd August 2024. Brokerage firm Jefferies has maintained a 'buy' call on Tata Motors and raised the target price to ₹1,330 from ₹1,250

Kalyan Jewellers: The jewellery retailer reported a **23.6% YoY rise in net profit to ₹177.8 crores** for Q1 FY2025. **EBITDA increased by 16.5% to ₹376.1 crores** compared to ₹322.8 crores in the year-ago period, with the EBITDA margin standing at 6.8% against 7.4% in the previous fiscal. Revenue rose by 26.5% YoY to ₹5,535.5 crores, showing strong performance despite the off-season. The **stock price reached a 52-week high of ₹633.60** on 24th July 2024 and closed at ₹559.75 on Friday.

Titan: The company reported a **1% decline in standalone net profit for Q1 FY2025**, with profits of ₹770 crores compared to ₹777 crores in the same period last year. This dip was attributed to decreased demand due to elevated gold prices. However, **standalone revenue from operations increased by 10%**, reaching ₹11,105 crores in Q1 FY2025, up from ₹10,103 crores in Q1 FY2024.

This week also saw significant financial developments for the following companies:

- **UltraTech Cement**: On **28th July, the Board of Directors approved the purchase of a 32.72% equity stake in India Cements** from its promoters and their associates for ₹3,954 crores at ₹390 per share. The share price of India Cements Limited reached a 52-week high of ₹385 on 29th July 2024 and closed at ₹371.55 on Friday.
- **Adani Energy:** The **company's $1 billion Qualified Institutional Placement (QIP) was oversubscribed by over 6 times.** Launched after trading ended on Tuesday and closed before market hours on Wednesday, the QIP attracted demand exceeding ₹50,000 crores. Notably, Duquesne Family Office, founded by billionaire investor Stanley Druckenmiller, along with two other US-based long-only funds–Driehaus Capital Management and Jennison Associates–invested in Adani Energy Solutions, marking their first investment in Indian equities.

UNEVEN RAINFALL MAY FLARE UP FOOD INFLATION

After a weak June, the monsoon picked up in July, leading to above-normal cumulative rainfall. However, this uneven distribution—excess rain in Southern and Central India and deficits in other regions—poses risks to food inflation.

Food inflation in June reached a six-month high of 9.36%. Economists are concerned that any further irregularities in rainfall until the harvest season in September could exacerbate inflation. Madan Sabnavis, chief economist at Bank of Baroda, emphasized that rainfall patterns are crucial for crop production, and any deficits or excesses in key agricultural areas could signal potential inflation spikes.

The uneven rainfall has been particularly concerning in Northern India and the Eastern Gangetic plains, where key agrarian states are experiencing deficits. Rajani Sinha, chief economist at CareEdge, noted that while Kharif crop sowing has increased by 2.3% compared to last year, this growth is somewhat misleading. Last year's sowing was disrupted by El Niño, and when compared to July 2022, the area sown has actually decreased by 2.4%, with poor sowing of pulses being a significant factor.

Looking ahead, Goldman Sachs suggests that even though the high base from last year may lower headline inflation to around 4% in the third quarter, there are still upside risks to food inflation due to the uneven monsoon. This could be exacerbated if the government needs to augment supply or if India enters the global import market, potentially driving up international prices.

Improved irrigation in grain-producing states like Punjab and Haryana is a positive development, as noted by DK Pant, chief economist at India Ratings. This could help mitigate the impact of monsoon failure on agricultural gross value added (GVA).

In addition to food inflation, there is concern about rising core inflation, which excludes food and energy prices. Core inflation is being driven up as companies pass on higher input costs to consumers. With economic growth expected to exceed 7% this year, demand-pull factors are also expected to push core inflation upwards, potentially reaching around 4%, as suggested by Sabnavis.

Overall, while there are positive signs in some areas, the uneven monsoon and other factors pose significant risks to both food and core inflation in India.

Fiscal Policy in India

Introduction : The fiscal policy relates to the government using the methods of taxation or public expenditure to manage the economy at large. It is used in economic control and as a tool of fiscal policies, as it involves government's revenues and spending towards achieving certain economic goals. Besides with Monetary policy, which is more central bank dominated, fiscal policy is used to stabilize the macroeconomic aggregates and encourage growth.

FRBM Act

Fiscal Responsibility Budget Management Act is a law that was meant to enhance fiscal management in a country. Its main goals are:

Fiscal discipline: Guarantees that the government does not overspend or borrow to finance its expenditure.

Transparency: Can make the government finances easily understandable by everyone around.

Debt management: Determines the level of borrowing within the government's fiscal year. The Act sets targets for reducing government spending and debt over time. It also requires regular reports on the government's financial health. In essence, the FRBM Act is a tool to make the Indian government more financially responsible.

Centre's Fiscal Deficit Target

The Indian government is planning to change how it measures its fiscal deficit. Instead of a single number, it wants to use a range of 3.7% to 4.3% of GDP after 2025-26. This is higher than the previous target and also exceeds the limits set by the FRBM Act. The goal is to balance economic growth with debt reduction. However, this could lead to higher government borrowing. India's overall debt is also increasing rapidly and is expected to reach 56.8% of GDP in 2024-25.

OBJECTIVES OF FISCAL POLICY

CORE OBJECTIVES

- Boost economic growth: By investing in infrastructure, education, and healthcare.
- Stabilize prices: By controlling inflation.
- Create jobs: By initiating projects that generate employment.
- Reduce income inequality: Through progressive taxation and social welfare programs.
- Maintain external stability: By balancing trade and payments.
- Generate revenue: Through taxes and other sources while managing the fiscal deficit.
- Develop infrastructure: To support long-term economic growth.
- Improve social welfare: By addressing poverty and uplifting marginalized communities.
- Protect the environment: By promoting sustainable development. Tools of Fiscal Policy

Government Receipts

- Capital receipts: Capital that originates from the issue of bonds or through the sale of assets to finance a firm's activities.
- Revenue receipts: A non-debt creation method of financing expenditure through the utilisation of tax and other receipts.

Government Expenditures

- Revenue expenditures: Fixers or operating costs that are incurred while performing the business's normal activities.
- Capital expenditures: Accumulated expenditure for purposes that will raise the company's capacity in the future

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Public Account of India

- Some of the funds which are also managed by government as a banker includes saving and provident funds.
- People's money which is refunded to them and is independent of the budget.

These are operated and financed through the annual budget and are important for attaining India's economic goals.

SOVEREIGN GOLD BOND (SGB) AND ITS FUTURE.

Brief about SGB: The purpose of launching the Sovereign Gold Bond Scheme was to reduce India's reliability on gold imports. As Indian households holds approximately 11% of gold available globally, the intention was to leverage the above stated fact and reduce the volatility of gold prices and hedge against any global risk.

Sovereign Gold Bond was introduced by RBI on behalf of GoI back in FY2016. The first tranche of the SGB was rolled out in August 2016, priced at Rs.3119 per gram of 99.9% purity of gold attracting an annual interest rate of 2.5% in addition to the capital addition which is to be paid by the govt. if any. The maturity period of SGB is set to be 8 years.

Under SGB Scheme government pays out a fixed annual interest of 2.5% on an annual basis and is obligated to pay the difference in the base price in case of the gold prices appreciate due to demand and supply imbalance.
Each member of the family can subscribe for a minimum of 1gm and a maximum of 4kg of underlying gold amount. For trusts and similar entities the upper limit has been set to 20kg.

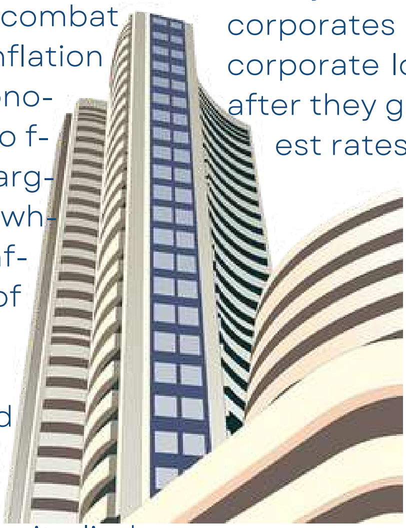
Will the govt. discontinue issuing SGB?

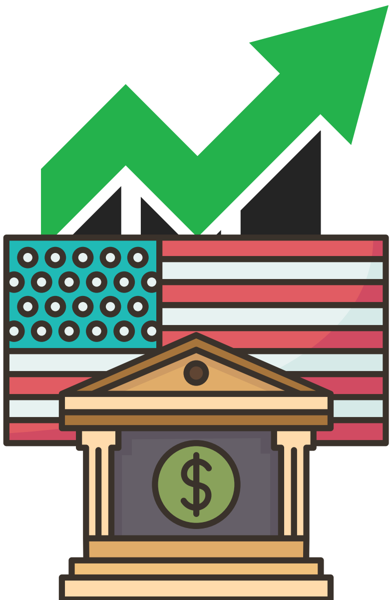
The Interim Budget presented by the Union Govt. set a target of issuing SGB worth 29638 Cr, which has been downgraded by 38% to 18500 Cr. Gold prices tanked 5% on the 23rd July 2024 i.e. The Budget Day as the govt. slashed customs duty on gold to 6% which used to be 15% before. The slashing has been gradual over a period of time. The above stated fact was perceived as a negative news by the investors as reducing the customs duty will eventually lower the gold prices. As the prices of the underlying asset is going down in the market, there is a selloff in the bond market simultaneously, pulling down the bond prices. As interest rates on bonds and their prices are inversely proportional, govt. has to payout a higher interest if they intend to issue new tranche of SGB. As the interest payments along with the obligation to payout the capital appreciation amount upon maturity is a substantial amount, the target for the cumulative issue has been lowered in the Union Budget FY25. Going ahead, govt. can further lower the corpus to be raised via issuing SGB or phase it out completely once it believes that they are on path to achieve their target of 4.5% Fiscal Deficit by FY26.

SOVEREIGN GOLD BONDS SCHEME
INVEST WISELY. EARN SAFELY

FED LEADS THE WAY

The Federal Reserve has decided to keep the Fed rate unchanged at 5.25-5.50% in their last FOMC meeting which was held on July 30-31, 2024. The interest have been kept on an elevated level to combat the higher rate of inflation faced by the US economy. US, like India also follows an Inflation targeting system under which their intended inflation level is of 2% of their GDP. While the fact that the rates were left unchanged was on expected lines, the interest of the investor community lied on the Fed's chair Jerome Powell's speech. Investors have been hoping for a rate cut for quite some time and Powell's dovish statement has ignited a new up move in the market. As per Powell's speech, there are high chances of an interest rate cut in September when the next FOMC meeting is going to take place as inflation in the US is slowly coming down to their target levels with conviction.





As inflation is back on their comfort level, the Fed is looking towards focusing on the growth of the economy. Lowering the interest rates will mainly benefit the IT sector as corporates rely heavily on corporate loans to raise capital after they go public. As interest rates are slashed cost of capital goes down not only for corporates but also for normal consumers who are major drivers of an economy.

How it benefits India?

As interest rates in a developing economy goes down, the money usually flows towards the emerging markets and India stands right in front attracting the attention of the foreign investors.

FII (Foreign Institutional Investors), Hedge Funds, Pension Funds etc. look for higher rate of return given the amount of risk they want to take and an emerging market becomes their ultimate destination.

Indian IT industry is also set to benefit from the fed rate cuts as majority of Indian IT giants depend on External Commercial Borrowings (ECB) for their long term capital needs.

As foreign currency inflow will increase, INR is set to appreciate against USD which will make Indian imports cheaper which will also help us curb higher inflation which might see a spike due to a volatile food inflation due to uneven rainfall.

Post this news Nifty50 opens around 70pts gap up which is evident from the graph as above.

R A

1. I am the art and science of managing money, often for wealth yet sometimes for sunny. What am I?
2. You may find me spread in sheets, or tight like a drum; plan me well or your pockets might hum. What am I?
3. I start with intent, and then grow with time; I'm part of your plan to make your wealth climb. What am I?
4. Keep me today, to have for tomorrow; I'm a resource that can bloom from sorrow. What am I?
5. A place for your cash that can lend you a hand, I'll hold your money on demand. What am I?
6. I compound in silence, growing unseen; the more of me, the wealthier you've been. What am I?
7. Owe now and pay later, it's a slippery slope; I hang around your finances like an unwelcome rope. What am I?
8. I am but a small part, of a company's heart; buy me, sell me, I'm the market's cart. What am I?
9. Amid bulls and bears I thrive, with tickers that dive and jive. What am I?
10. You can spend me in lands away or trade me in markets by day. What am I?
11. I grow with time, neither plant nor vine; in accounts, I climb, from a rate designed. What am I?
12. I start with a plan, but not for a trip; I help you manage, so your funds don't slip. What am I?
13. I am a score, but not in sport; I open doors, with banks I court. What am I?
14. I'm neither a window nor a gate, yet through me, your money consolidates. What am I?
15. You swim in my pool, but never get wet; I'm the goal of your work, what you hope to get. What am I?
16. I'm a percentage, not a fraction; I come in bonds and also action. What am I?
17. I'm not a museum, but art can be found; in me, your money's safe and sound. What am I?
18. Not a garden's, but I'm still a kind; in the market, my growth you'll find. What am I?
19. A piece of me, you can buy or sell; on my market, prices can propel. What am I?
20. I'm not a dance, nor a trade of glance; but in finance, I give you a chance. What am I?