APAS MONTHLY – VOLUME 4

APAS MONTHLY NEWSLETTER

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ashvin parekh

APAS

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EDITORIAL

In this issue, Mr. Raghwendra Pandey - Executive Vice President, Investment Banking, ICICI Securities Ltd. has presented his thoughts on **'Growing investor interest in InVits and REITs shape of things to come'**. We thank Mr. Pandey for his contribution to the APAS Monthly.

This month, the APAS column covers '**India's Clean-Tech Ambitions: Green Hydrogen and Semiconductor Synergy'.**

The economic indicators showed good performance. Manufacturing PMI was revised lower to 59.1 in March 2024. Services PMI was higher to 61.2 in March 2024. Infrastructure output in India increased to 5.2% year-on-year in March 2024. Industrial production in India India rose by 5.7% on an annual basis in February of 2024. India's retail price inflation (CPI) fell to 4.85% in March 2024, the lowest since May 2023. India Wholesale Price Index (WPI) number is 0.53% (Provisional) for the month of March 2024.

The Reserve Bank of India (RBI) has clarified that there is no change in the regulations for Exchange Traded Currency Derivatives (ETCDs) involving the Indian rupee (INR). RBI statement outlines new developmental and regulatory policies. Reserve Bank of India placed on its website, two draft directions on regulation of Payment Aggregator. Reserve Bank of India has issued the Master Direction – Reserve Bank of India (Asset Reconstruction Companies) Directions, 2024.

The sixth edition of Bima Manthan, a periodic meeting of industry and IRDAI, unfolded over two days on April 25th and 26th, 2024, at IRDA.

The circular from SEBI in April 2024 introduces a framework for Category I and II Alternative Investment Funds (AIFs) to establish encumbrances on their equity holdings in investee companies. SEBI circular issued in April 2024 provides flexibility to Alternative Investment Funds (AIFs) and their investors to handle unliquidated investments of their schemes. SEBI board meeting in April 2024 discussed various regulatory and operational issues.

The recent surge in UPI transactions among smaller merchants reflects a growing confidence in smartphone-based payments, underscoring the need for fintech adaptation to diverse payment channels. Simultaneously, the RBI's approval for third-party UPI apps to facilitate payments from PPI wallets and the issuance of online payment aggregator licenses to Grow, Worldline, etc signify a concerted effort towards enhancing digital payment accessibility and innovation. However, amidst these advancements, challenges such as the significant decline in FinTech funding in FY24 and the regulatory caution on gold loan disbursals via fintech startups highlight the importance of addressing structural hurdles and ensuring responsible financial practices for sustainable growth and financial inclusion.

We hope that this APAS Monthly is insightful. We welcome your input and thoughts and encourage you to share them with us.

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***Mr. Raghwendra Pandey – Executive Vice President, Investment Banking
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Guest Column: Growing investor interest in InVits and REITs shape of things to come

Mr. Raghwendra Pandey – Executive Vice President, Investment Banking
ICICI Securities Ltd.

Growing investor interest in InVits and REITs shape of things to come

InvITs and REITs have emerged as valuable financing instruments in India offering a long-term funding solution to cash starved infrastructure and real estate sectors. Since its inception over six years ago, Indian InvIT and REIT market has already reached a market capitalization of USD 30 Bn. This still seams significantly small as compared to mature markets like US which has an aggregate REIT market capitalization of USD 1.3 Tn, underscoring the immense growth potential for Indian REITs and InvITs in years to come.

India has 25 InvITs and REITs registered with SEBI spanning across various sectors like roads, power transmission, renewables, warehousing, pipelines, telecom towers and fibre, commercial offices and malls. While REITs are typically public listed entities, InvITs can either be public listed or privately listed. The primary distinction between the two lies in their investor offerings. Public listed invits are available to both institutional and non-institutional investors, whereas privately listed ones are exclusively offered to institutional investors.

In their initial years, public InvIT and REIT offerings in India primarily attracted interest from long term yield focused foreign institutional investors while private offerings were predominantly dominated by sovereign wealth funds and pension funds seeking stable cash flows over the long term. These foreign investors with a focus on stable returns and long term investment horizon contributed to the initial growth of InvIT and REIT market in India.

As the markets have evolved and matured, domestic investors gained a better understanding of the product leading to increased participation. As of today, 20% of non-sponsor shareholding is held by mutual funds and insurance companies. Given the risk averse nature of insurance companies, these investments which offer steady returns and align well with the long-term liabilities of insurance companies have emerged as attractive investment option for them. The 3% cap placed by Insurance regulator (IRDA) on investments in InvITs and REITs have been limiting their participation to some extent, though there have been discussions on increasing this cap. Mutual fund participation is also expected to increase if REITs and InvITs were to be reclassified as equity products from their current hybrid product classification, further bolstering the growth of these products in the Indian markets.

As these instruments continue to gain traction and demonstrate their value proposition, there are several other domestic investor classes like corporate treasuries, bank treasuries, public and private PF trusts and National Pension Scheme (NPS) funds which have been increasing their allocation to InvITs and REITs. Infrastructure AIFs have emerged as another avenue for channelling HNI money into InvITs and REITs.

High trading lot sizes were a significant concern that limited the participation of HNI and retail investors in InvITs and REITs initially. However, SEBI has played a crucial role in implementing reforms aimed at increasing liquidity in these products. One such reform was the reduction of trading lot sizes to one unit in public InvITs and REITs, which has made these investment vehicles more accessible and affordable for retail and HNI investors. REITs and InvITs have also attracted a lot of HNI capital due to their unique proposition of offering double digit returns over consistent long period while also being relatively low risk compared to many other investment options. As a result, 32% of the non sponsor shareholding in these products is held by non-institutional shareholders.

As regulatory frameworks continue to evolve and investor awareness grows, these investment vehicles are expected to play increasingly vital role in infrastructure and real estate fund raising in India.

APAS COLUMN

India's Clean-Tech Ambitions: Green Hydrogen and Semiconductor Synergy

India is taking bold steps toward a cleaner energy future, recently announcing plans to bid for a pilot project on green hydrogen valued at ₹496 crore. This marks the beginning of a journey aimed at reducing carbon emissions across various sectors and positioning India as a leader in green hydrogen technology.

So, what exactly is green hydrogen, and why is it important?

Well, currently, fossil fuels dominate India's energy scene, contributing significantly to greenhouse gas emissions. Green hydrogen offers a cleaner alternative. It's produced by splitting water using renewable sources like solar and wind power, resulting in a clean-burning fuel that emits no greenhouse gases during use.

This eco-friendly fuel has enormous potential for reducing emissions in sectors like transportation, power generation, and industry. Vehicles powered by hydrogen, such as buses, trucks, and cars, can significantly cut emissions in transportation. Plus, green hydrogen can be used in fuel cells to generate electricity, providing a clean and reliable power source. Many industries that rely on high-temperature processes can also use green hydrogen to reduce their carbon footprint.

Recognizing the need for cleaner alternatives, India launched the National Green Hydrogen Mission in January 2023. This aligns with India's ambitious renewable energy goals and its commitment to reducing carbon emissions.

The government has allocated a substantial budget of Rs 19,744 crore for the Green Hydrogen Mission, including the Strategic Interventions for Green Hydrogen Transition (SIGHT) scheme, which incentivizes production. The mission aims to produce 5 million metric tonnes per annum (MMTPA) of green hydrogen by 2030, making India a global leader in the technology and market share of green hydrogen.

A recent development in the mission is the bidding process for a pilot project worth ₹496 crore. This project aims to identify operational challenges, technology gaps, regulations, and supply chain infrastructure. Key players like Reliance Industries (RIL), Tata Motors, and Indian Oil Corporation (IOC) are expected to participate, ensuring representation across the entire value chain, from hydrogen production to vehicle manufacturing and refueling.

The insights gained from this pilot project will be crucial in promoting the adoption of hydrogen-powered vehicles. The successful bidder will receive funding to bridge the cost gap between hydrogen vehicles and traditional ones, making them more affordable for widespread adoption.

The Union Budget for 2024-25 further emphasizes the government's commitment to green hydrogen, with an allocation of ₹600 crore—a significant increase of 102% compared to the previous year. This commitment underscores India's long-term vision for a clean energy future powered by green hydrogen.

The Semiconductor Imperative

Semiconductors are essential for modern electronics, powering devices from smartphones and computers to electric vehicles and medical equipment. India currently relies heavily on imported semiconductors, which makes it vulnerable to supply chain disruptions and price fluctuations.

To address this dependency, the government launched the India Semiconductor Mission (ISM) in December 2020. The ISM aims to attract global chipmakers to set up manufacturing facilities in India by offering financial incentives and creating a conducive ecosystem. With a massive package of Rs 76,000 crore committed to attracting investments and supporting domestic production, the focus is on building a robust semiconductor industry.

This focus on domestic semiconductor production is strategic. A robust semiconductor industry would reduce dependence on foreign imports, create high-skilled jobs, boost the domestic electronics manufacturing sector, and provide greater control over the security and reliability of critical electronic components.

Recognizing the critical role of semiconductors, the government approved the establishment of three new semiconductor fabrication plants (fabs) in February 2024, in addition to the previously announced Micron facility. These projects represent a cumulative investment of over Rs1.25 trillion, showcasing India's commitment to building a robust domestic semiconductor ecosystem.

The focus of these new projects is diverse. While the fab in Dholera will handle chip manufacturing, the facilities in Assam and Gujarat will prioritize assembling and testing existing chips (Outsourced Semiconductor Assembly and Test - OSAT). This approach ensures India develops capabilities across the entire semiconductor value chain, generating direct employment of 20,000 advanced technology jobs and about 60,000 indirect jobs.

Tesla Sets Sights on India's Booming Electric Vehicle Market

Tesla, a leading American electric car manufacturer, is gearing up to enter India, the world's fastest-growing major auto market. Reports suggest a significant investment of $2 billion earmarked for Indian ventures, with Gujarat and Maharashtra emerging as strong contenders for plant locations.

This move aligns with India's ambition to become a global EV manufacturing hub, supported by the recently approved Electric Vehicle policy aimed at attracting major EV manufacturers through an attractive investment structure.

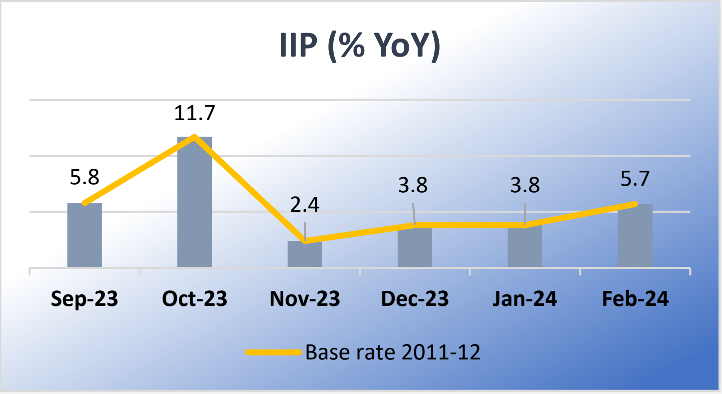
Further boosting India's position in the EV landscape is a strategic partnership between Tesla and Tata Electronics for semiconductor procurement. This collaboration highlights India's potential as a reliable supplier in the global EV supply chain, reflecting both Tesla's confidence in India's semiconductor capabilities and India's emergence as a strategic player in the global EV supply chain.

In conclusion, India's focus on green hydrogen and domestic semiconductor production forms a well-coordinated strategy. Green hydrogen can fuel the next generation of EVs, creating demand for high-performance semiconductors. Simultaneously, a robust domestic semiconductor industry can accelerate the deployment of green hydrogen technologies. This symbiotic relationship holds immense potential to propel India toward a sustainable and technologically advanced future.

ECONOMY

IIP (Index of Industrial Production) – Feb

Industrial output in India rose by 5.7% on an annual basis in February of 2024, missing market expectations of a 6% expansion, but still pointing to the sharpest increase since October 2023.



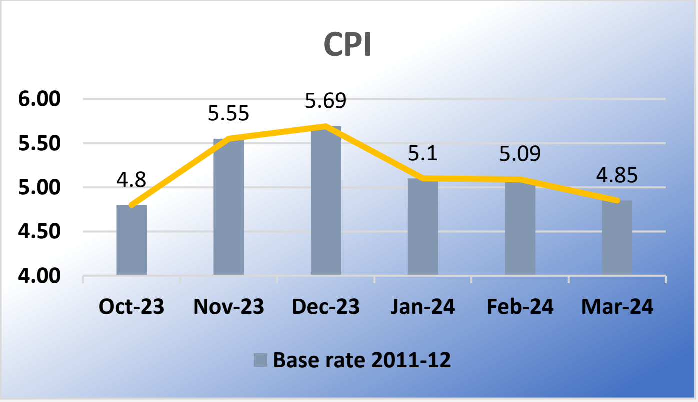
Source: APAS BRT, www.mospi.gov.in

For the month of February 2024, the Quick Estimates of Index of Industrial Production (IIP) with base 2011-12 stands at 147.2. The Indices of Industrial Production for the Mining, Manufacturing and Electricity sectors for the month of February 2024 stand at 139.6, 144.5 and 187.1 respectively.

As per Use-based classification, the indices stand at 148.2 for Primary Goods, 106.2 for Capital Goods, 158.9 for Intermediate Goods and 179.8 for Infrastructure/ Construction Goods for the month of February 2024. Further, the indices for Consumer durables and Consumer non-durables stand at 121.6 and 148.9 respectively for the month of February 2024.

CPI (Consumer Price Index) – Mar

Annual retail inflation in India fell to 4.85% in March 2024, the lowest since May 2023, from 5.09% in February and compared to forecasts of 4.91%.



Source: APAS BRT, www.eaindustry.nic.in

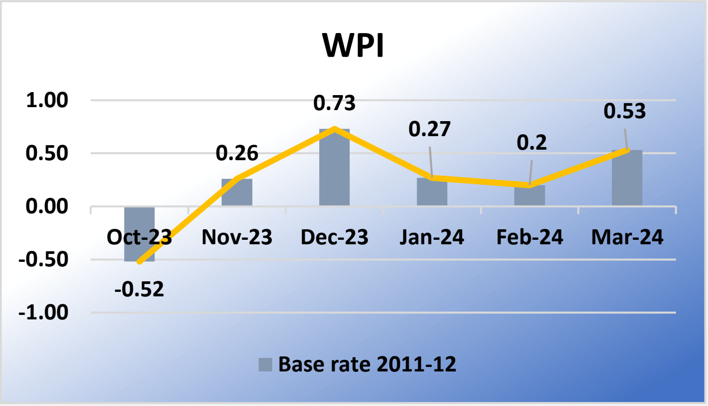
Food inflation was 8.52%, below 8.66%, mainly due to prices for vegetables (28.3% vs 30.3%), while cost slowed for pulses (17.7% vs 18.9%), spices (11.4% vs 13.5%) and fruits (3.1% vs 4.8%) and continued to fall for oils and fats (-11.7% vs -14%).

Meanwhile, a slowdown was also seen in prices for clothing and footwear (3% vs. 3.1%), miscellaneous (3.5% vs. 3.6%) and housing (2.8% vs 2.9%) and prices fell more for fuel and light (-3.2% vs -0.8%). Inflation for pan, tobacco, and intoxicants was little changed at 3.1%.

WPI (Wholesale Price Index) – Mar

Wholesale Price Index (WPI) number is 0.53% (Provisional) for the month of March, 2024 (over March, 2023). Positive rate of inflation in March, 2024 is primarily due to increase in prices of food articles, electricity, crude petroleum & natural gas, machinery & equipment and other manufacturing etc.

The month over month change in WPI index for the month of March, 2024 stood at 0.40% as compared to February, 2024.



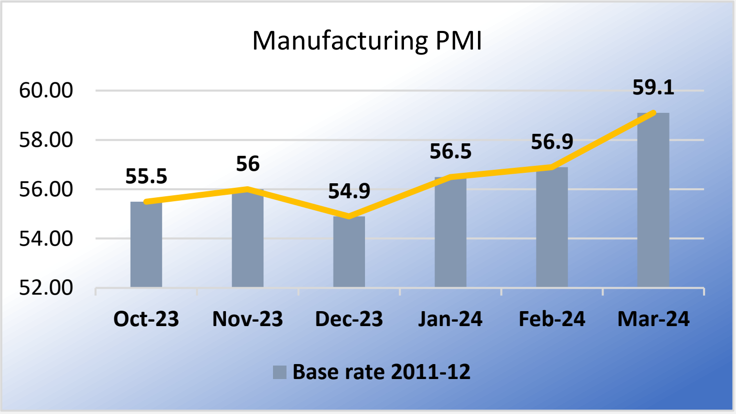
Source: APAS BRT, www.eaindustry.nic.in

The index for primary articles increased by 0.94% to 183.1 (provisional) in March, 2024 from 181.4 (provisional) for the month of February, 2024. Prices of Crude Petroleum & Natural Gas (1.35%), Food Articles (1.0%), Minerals (0.58%) and Non-food Articles (0.44%) increased in March, 2024 as compared to February, 2024.

Prices for Fuel & Power increased by 0.06% to 155.2 (provisional) in March, 2024 from 155.1 (provisional) for the month of February, 2024. Prices of Electricity (0.13%) and Mineral Oils (0.13%) increased in March, 2024 as compared to February, 2024. Prices of Coal (-0.15%) declined in March, 2024 as compared to February, 2024.

Prices for Manufacturing products increased by 0.21% to 140.1 (provisional) in March, 2024 from 139.8 (provisional) for the month of February, 2024.

Manufacturing PMI – Mar



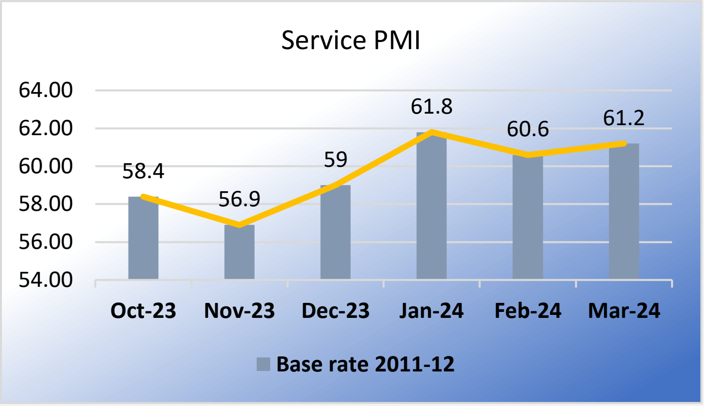
Source: www.tradingeconomics.com

The HSBC India Manufacturing PMI was revised lower to 59.1 in March 2024 from preliminary estimates of 59.2, below forecasts of 59.4, and after a final 56.9 in the previous month. Still, the latest reading was the fastest growth in factory activity since February 2008, as output and new orders grew the most in nearly three-and-a-half years, with new export orders rising the most since May 2022. Buying levels rose significantly to the fastest rate since mid-2023 and one that was among the strongest in nearly 13 years while vendor performance improved. Employment climbed to the strongest since September 2023. On the price front, input price inflation accelerated to a five-month high due to higher raw material costs, while output cost inflation eased to the weakest in over a year. Finally, business sentiment slipped to a four-month low as concerns about inflation.

On the price front, input price inflation eased to the weakest since August 2020, while output cost inflation slowed to an eleven-month low. Finally, sentiment improved to the second-highest since December 2022 amid hopes of rising demand.

Services PMI – Mar

The HSBC India Services PMI was revised higher to 61.2 in March 2024 from preliminary estimates of 60.3 and after a final 60.6 in the previous month. It marked the 32nd straight month of growth in the services sector amid a sharp increase in business activity and was one the strongest rates since mid-2010, with new export orders rising the most since September 2014.



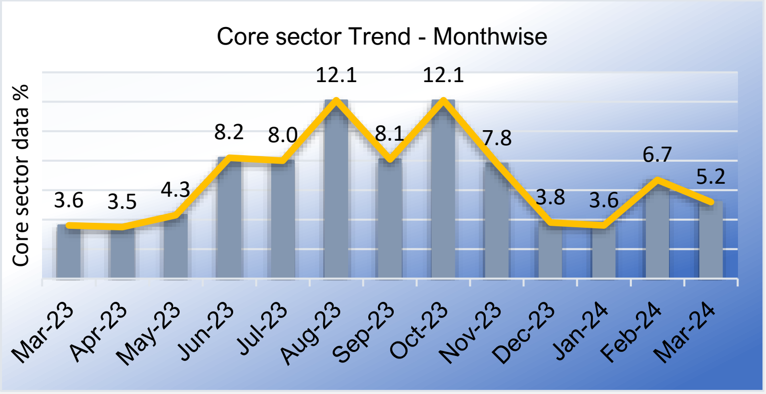
Source: www.tradingeconomics.com

Meantime, employment increased sharply and was the strongest since November 2022. On the price front, input price inflation accelerated and above its long-run average due to higher labor and material costs. Meanwhile, output cost inflation rose to its highest since July 2017.

Lastly, business sentiment weakened to a four-month low amid concerns surrounding competitive pressures.

Core Sector Data – Mar

The combined Index of Eight Core Industries (ICI) increased by 5.2 per cent (provisional) in March, 2024 as compared to the Index in March, 2023. The production of Cement, Coal, Electricity, Natural Gas, Steel and Crude Oil recorded positive growth in March 2024. The ICI measures the combined and individual performance of production of eight core industries viz. Cement, Coal, Crude Oil, Electricity, Fertilizers, Natural Gas, Refinery Products and Steel. The Eight Core Industries comprise 40.27 percent of the weight of items included in the Index of Industrial Production (IIP).



Source: APAS BRT, www.mospi.gov.in

The final growth rate of Index of Eight Core Industries for December 2023 is revised to 5.0 per cent. The cumulative growth rate of ICI during 2023-24 reported 7.5 per cent (provisional) as compared to the corresponding period of last year.

The summary of the Index of Eight Core Industries is given below:

Coal - Coal production (weight: 10.33 per cent) increased by 8.7 per cent in March, 2024 over March, 2023. Its cumulative index increased by 11.7 per cent during 2023-24 over corresponding period of the previous year.

Crude Oil - Crude Oil production (weight: 8.98 per cent) increased by 2.0 per cent in March, 2024 over March, 2023. Its cumulative index increased by 0.6 per cent during 2023-24 over corresponding period of the previous year.

Natural Gas - Natural Gas production (weight: 6.88 per cent) increased by 6.3 per cent in March, 2024 over March, 2023. Its cumulative index increased by 6.1 per cent during 2023-24 over corresponding period of the previous year.

Petroleum Refinery Products - Petroleum Refinery production (weight: 28.04 per cent) declined by 0.3 per cent in March, 2024 over March, 2023. Its cumulative index increased by 3.4 per cent during 2023-24 over corresponding period of the previous year.

Fertilizers - Fertilizer production (weight: 2.63 per cent) declined by 1.3 per cent in March 2024 over March, 2023. Its cumulative index increased by 3.7 per cent during 2023-24 over corresponding period of the previous year.

Steel - Steel production (weight: 17.92 per cent) increased by 5.5 per cent in March, 2024 over March, 2023. Its cumulative index increased by 12.3 per cent during 2023-24 over corresponding period of the previous year.

Cement - Cement production (weight: 5.37 per cent) increased by 10.6 per cent in March, 2024 over March, 2023. Its cumulative index increased by 9.1 per cent during 2023-24 over corresponding period of the previous year.

Electricity - Electricity generation (weight: 19.85 per cent) increased by 8.0 per cent in March, 2024 over March, 2023. Its cumulative index increased by 7.0 per cent during 2023-24 over corresponding period of the previous year.

ECONOMIC DATA SNAPSHOT

Countries	GDP (% change on year ago)		CPI (%change on year ago)		Current Account Balance % of GDP, 2024*	Budget Balance % of GDP, 2024*	Interest Rates 10-yr gov't bonds Latest,%
	Latest	2024*	Latest	2024*			
Brazil	2.1 Q4	2.1	3.9 Mar	4.0	-1.7	-7.3	11.8
Russia	4.9 Q4	1.9	7.7 Mar	6.4	2.2	-1.8	13.6
India	**8.4 Q4**	**6.6**	**4.9 Mar**	**4.9**	**-1.1**	**-5.3**	**7.2**
China	5.3 Q1	4.7	0.1 Mar	1.0	1.4	-4.6	2.2
S Africa	1.2 Q4	1.6	5.3 Mar	4.8	-2.0	-5.2	10.7
USA	3.0 Q1	2.0	3.5 Mar	2.7	-2.8	-6.1	4.7
Canada	0.9 Q4	1.9	2.9 Mar	2.5	-0.4	-0.6	3.8
Mexico	1.6 Q1	2.3	4.4 Mar	4.2	-0.6	-4.7	10.0
Euro Area	0.4 Q1	0.8	2.4 Apr	2.4	2.7	-3.1	2.6
Germany	-0.2 Q1	0.1	2.4 Apr	2.1	6.2	-1.5	2.6
Britain	-0.2 Q4	0.4	3.2 Mar	2.6	-2.8	-4.2	4.3
Australia	1.5 Q4	2.0	3.6 Q1	2.7	1.1	-1.0	4.4
Indonesia	5.0 Q4	5.1	3.0 Mar	3.2	-0.2	-2.4	7.2
Malaysia	3.9 Q1	4.4	1.8 Mar	2.5	1.9	-4.4	4.0
Singapore	2.7 Q1	2.4	2.7 Mar	3.1	18.5	0.1	3.5
S Korea	3.2 Q1	2.3	3.1 Mar	2.5	1.9	-1.3	3.6

BANKING

Exchange Traded Currency Derivatives

The Reserve Bank of India (RBI) has clarified that there is no change in the regulations for Exchange Traded Currency Derivatives (ETCDs) involving the Indian rupee (INR). Participants can still take positions up to USD 100 million without providing documentary evidence of underlying exposure, but they must still have such exposure. The implementation of the new master direction has been deferred from April 5 to May 3, 2024.

Statement on Developmental and Regulatory Policies

This RBI statement outlines new developmental and regulatory policies. It includes measures for financial markets like enabling trading of Sovereign Green Bonds in the IFSC and a mobile app for the RBI Retail Direct Scheme. Regulatory changes include a review of the LCR framework for banks and allowing Small Finance Banks to deal in more rupee interest rate derivative products. New initiatives in payment systems and Fintech involve using UPI for cash deposits, enabling UPI access for prepaid instruments through third-party apps, and distributing CBDC through non-bank payment system operators.

Regulation of Payment Aggregators (PAs) – Draft Directions

Reserve Bank of India today placed on its website, for public comments, two draft directions on regulation of Payment Aggregators, as below:

New draft directions on regulation of Payment Aggregators – Physical Point of Sale

Amendments to the existing directions on Payment Aggregators

RBI in its “Statement on Developmental and Regulatory Policies” dated September 30, 2022, had announced regulation of offline PAs, who handle proximity / face-to-face payments. The new draft directions cover such physical Point-of-Sale activities of PAs.

Additionally, given the growth in digital transactions and the significant role that PAs play in this space, the current directions on PAs are proposed to be updated. These updates cover, inter alia, KYC and due diligence of merchants, operations in Escrow accounts, etc, and are intended to further strengthen the payment ecosystem.

Master Direction for Asset Reconstruction Companies (ARCs)

The Reserve Bank of India has issued the Master Direction – Reserve Bank of India (Asset Reconstruction Companies) Directions, 2024. The Directions have com e into effect immediately. The Master Direction consolidates the existing regulatory guidelines issued to ARCs vide Master Circular on ARCs and Master Direction - Fit and Proper Criteria for Sponsors - Asset Reconstruction Companies (Reserve Bank) Directions, 2018.

INSURANCE

Bima Manthan

Interaction with the Indian Insurance Industry

The sixth edition of Bima Manthan, a periodic meeting of industry and IRDAI, unfolded over two days on April 25th and 26th, 2024, at IRDAI Headquarters, Hyderabad.

This meeting follows the closing of financial year 2023-24 and thus the performance of the industry during the year was discussed. Insights gleaned from the performance analysis was shared, with a strong emphasis on augmenting insurance penetration nationwide to foster insurance inclusion and resilience.

Measures to bolster policyholders' trust and confidence was the focus of discussions. Important aspects to leverage the State Insurance Plan to cater to the diverse needs of the populace, emphasis being laid on enhancing product availability and accessibility, innovative distribution methods and bespoke product designs tailored to individual state requirements were deliberated. Strategies and action plan as regards upcoming Bima Trinity was considered.

The industry's preparedness for transitioning towards Risk-Based Supervision, Risk Based Capital frameworks and convergence to International Financial Reporting Standards (Ind-AS) took center stage, with participants discussing implementation milestones and timelines. These deliberations underscored a collective commitment to enhancing risk management practices.

An interactive session with the Insurance Information Bureau of India (IIBI) was also held showcasing the analytical tools available to industry stakeholders, highlighting their utility in risk assessment and management. Consensus was reached on maximizing the utilization of the data repository for informed decision-making.

CAPITAL MARKET

Framework for Category I and II Alternative Investment Funds (AIFs) to create encumbrance on their holding of equity of investee companies

The circular from SEBI in April 2024 introduces a framework for Category I and II Alternative Investment Funds (AIFs) to establish encumbrances on their equity holdings in investee companies. This framework aims to provide clarity and guidelines for AIFs regarding creating encumbrances on their investments, ensuring transparency and investor protection within the alternative investment landscape.

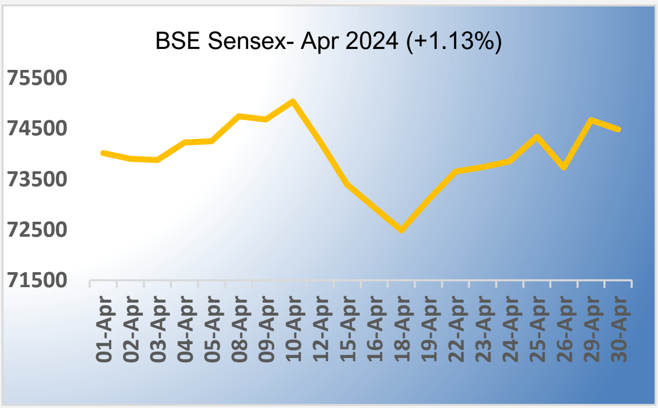
Flexibility to Alternative Investment Funds (AIFs) and their investors to deal with unliquidated investments of their schemes

The SEBI circular issued in April 2024 provides flexibility to Alternative Investment Funds (AIFs) and their investors to handle unliquidated investments of their schemes. This allows AIFs and investors more freedom in managing illiquid assets within their portfolios, potentially enhancing efficiency and risk management within the alternative investment landscape.

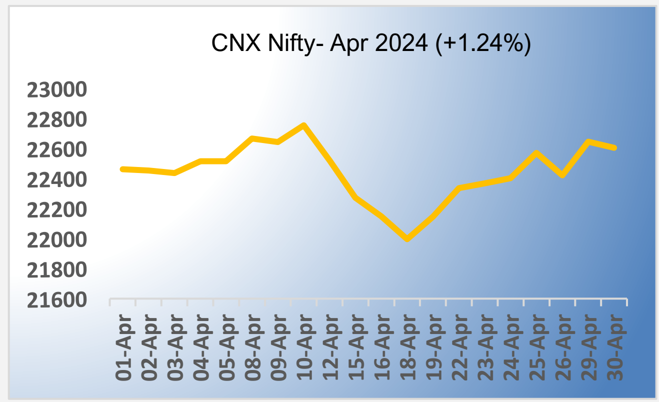
SEBI Board Meeting

The SEBI board meeting in April 2024 discussed various regulatory and operational issues. Key topics included measures to enhance market transparency, strengthen surveillance mechanisms, and improve investor protection. Additionally, the board reviewed ongoing initiatives aimed at promoting the development and integrity of India's securities market.

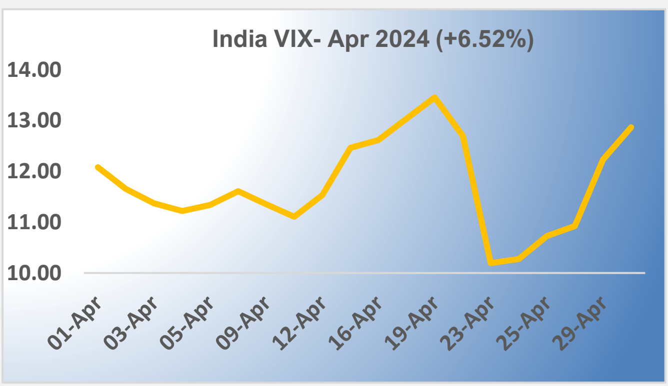
CAPITAL MARKET SNAPSHOT



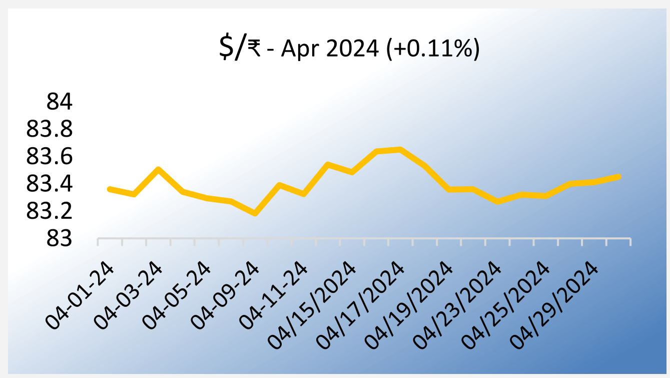
Sources: Bombay Stock Exchange



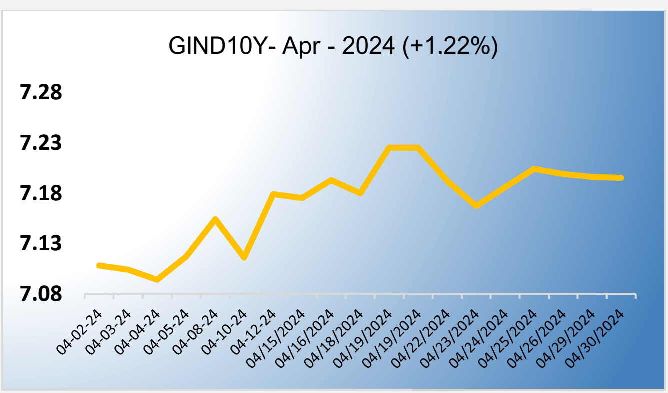
Source: National Stock Exchange



Sources: National Stock Exchange



Sources: APAS Business Research Team



Sources: APAS Business Research Team

In the first month of FY25, Indian stock markets saw a mix of highs and lows, ending with marginal changes. Despite initial positivity, global market fluctuations and declines in key stocks tempered gains. The Nifty 50 hit a new high before settling slightly lower. Financials, auto, and energy sectors gained, but broader indices closed with slight losses, reflecting a pause after recent upticks.

At close, Sensex rose marginally by +1.13%, while Nifty 50 edged up by +1.24%.

FINTECH

Highlights of the Month

[Small merchants join UPI, size of payments falls]

According to data from Worldline, Indian consumers are showing a shift in spending patterns and payment modes, with average UPI transactions decreasing due to increased adoption by smaller merchants, while average credit card expenses rise for higher value transactions. The average ticket size of UPI transactions fell 8% to ₹1,515, indicating deeper integration for smaller purchases, driven by person-to-merchant transactions which grew by 77% to 38.73 billion. This trend reflects growing confidence in smartphone-based payments, highlighting the need for finTechs to adapt to diverse payment channels. Despite the rise in digital payments, conventional cards remain in demand, with credit card issuance increasing by 21% in the second half of 2023, led by private banks, while public banks dominate debit card issuance, focusing on broader financial inclusion.

[RBI okays use of 3rd party UPI apps for payments from PPI wallets]

The RBI announced the permission for third-party UPI apps to facilitate UPI payments from Prepaid Payment Instruments (PPI) wallets, aiming to enhance customer convenience and promote digital payments for small transactions. This move is expected to increase flexibility for users and accelerate the growth of digital payments. RBI plans to distribute Central Bank Digital Currency (CBDC) through non-bank payment system operators, expanding CBDC accessibility and enabling testing of CBDC platform resilience for multi-channel transactions.

[FinTech funding witnesses over 66% yoy decline, total $1.5 bln raised in FY24]

Despite facing challenges such as rising borrowing costs, India has emerged as one of the top-funded countries globally, ranking 3rd in FinTech startup funding in 2023 according to Tracxn. However, FinTech funding in India saw a significant decline in FY24, with only about USD 1.5 billion raised across 157 funding rounds, marking a 66.67% decrease from the previous fiscal year. This downturn in funding affected all stages of investment, with late-stage rounds experiencing a 56% drop compared to 2022, and early-stage rounds facing a stark 73% decline.

[Monthly Credit Records: 16% uptick in overall outstanding loans in Feb'24]

The BFSI sector saw a robust credit growth of approximately 16% year-on-year in February 2024, with outstanding loans reaching Rs 161.1 trillion across scheduled banks. The Reserve Bank of India noted substantial credit expansion, particularly in personal loans, contributing to an overall credit growth of 15.4%. While deposits showed a 12% year-on-year growth, they experienced a slight month-on-month decline. Non-cash retail transactions surged by 28% year-on-year in February 2024, primarily driven by NEFT and UPI modes of payment, with total transactions amounting to Rs 69.7 trillion.

Payments via mobile wallets may cross Rs 531 trillion by 2028, says report

Mobile wallet payments in India are projected to exceed Rs 531.8 trillion by 2028, with a notable 18.3 percent compound annual growth rate. This growth is fueled by the success of unified payments interface (UPI) and government initiatives promoting digital payments. The Reserve Bank of India's plan to integrate UPI for cash deposits aims to further expand its usability beyond traditional transactions. Factors such as UPI's wide user base, government support, and merchant acceptance contribute to the increasing adoption of mobile wallet payments, offering secure, fast, and convenient transactions.

Groww and Worldline India secure online payment aggregator license from RBI

Wealthtech unicorn Groww and digital payment processing company Worldline ePayments have obtained online payment aggregator (PA) licenses from the Reserve Bank of India. With this, Groww can process online payments through its subsidiary payment business Groww Pay, while Worldline expands into the online payments space alongside its existing point of sales terminal deployment. They join a cohort of other recent PA license recipients such as PayU, Razorpay, and Google Pay.

RBI cautions banks on gold loan disbursals through fintech startups

The Reserve Bank of India (RBI) has raised concerns about gold loan disbursals via fintech startups, citing issues with evaluation processes, particularly when gold is sourced through field agents. Banks are urged to take corrective actions, potentially pausing operations temporarily. Scrutiny follows regulatory action against IIFL Finance, prompting discussions between cautioned banks and fintech firms to address compliance. Despite the sector's exponential growth, RBI's warning underscores the need for tighter oversight amid rapid expansion in retail gold loans.

ABOUT APAS

APAS is a management advisory firm specializing in banking, financial services, and the insurance space. APAS assists business leaders of some of the leading domestic and global organizations, acting as an extended arm to the management in coping with the ever changing internal and external dynamics. Leveraging deep business insights APAS develops business and operational strategy for its clients. APAS provides transaction advisory services (Buy, sell and merge), and also specializes in governance and board training. APAS facilitates investors and sellers with directional guidelines of pursuing transactions, by utilizing subject knowledge, vast experience, and deep market outreach. APAS has capability to identify and analyze key transaction drivers, recognize possible partnerships, and initiate discussions with them for possible growth opportunity. We help major insurance companies, payment institutions, and other financial organizations to identify their growth potential, innovative opportunity, and possible benefits of consolidation, and hence comprehend the possible merger or acquisition. Buying or selling a major asset or a business, undertaking a merger, or performing an IPO can be risky and complex especially in this globalization era. Hence, the need of a trusted advisor who can help clients preserve, create and enhance value in transactions.

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