FINA₹THA

MDI MURSHIDABAD Management Development Institute

FIN-O-DATE
THE FINANCE MAGAZINE

September 26, 2019

ISSUE– 51

Bank Merger

INDEX

- BSE 38,014.62
- NSE 11,274.20
- NASDAQ 8,023.24
- DOWJONES 26,915.64

CURRENCY

- INR/USD ₹ 70.98
- INR/GBP ₹ 85.27
- INR/YEN ₹ 0.66
- INR/EURO ₹ 77.57

Latest By September 26, 2019

The government of India recently announced the merger of 10 public sector banks to four mega "Next Generation" banks to boost credit in the world's 7th largest economy which aspires to be $5 trillion by 2025. So, the question, will it be feasible for the banks and what will be its impact on economy?

The toughest part in any bank's merger is the technology. Let's take the example of Bank of Baroda, Vijaya and Dena bank. All three have been using Finacle, a core banking product of Infosys, BoB has Finacle-10 while Vijaya and Dena have been using Finacle-7, the two different versions customized for each bank will lead to increase in the cost for the merger. That is the reason that the market responded against the merger.

And for the government there will be less burden to recapitalize the public sector banks because after the merger they will become large entity which leads to increase in operational efficiency and large banks will also be able to finance huge capital intensive projects. But big banks are vulnerable to global economies. If these banks fail there will same crisis situation as created by Lehman Brothers in 2008 because most of the huge projects in America was financed by it and when Lehman Brothers failed it lead to global economic crises.

बैंक ऑफ़ बड़ौदा
Bank of Baroda

देना बैंक
DENA BANK

विजया बैंक
VIJAYA BANK
(A GOVT. OF INDIA UNDERTAKING)
A friend you can bank upon

Corporate tax rate cuts

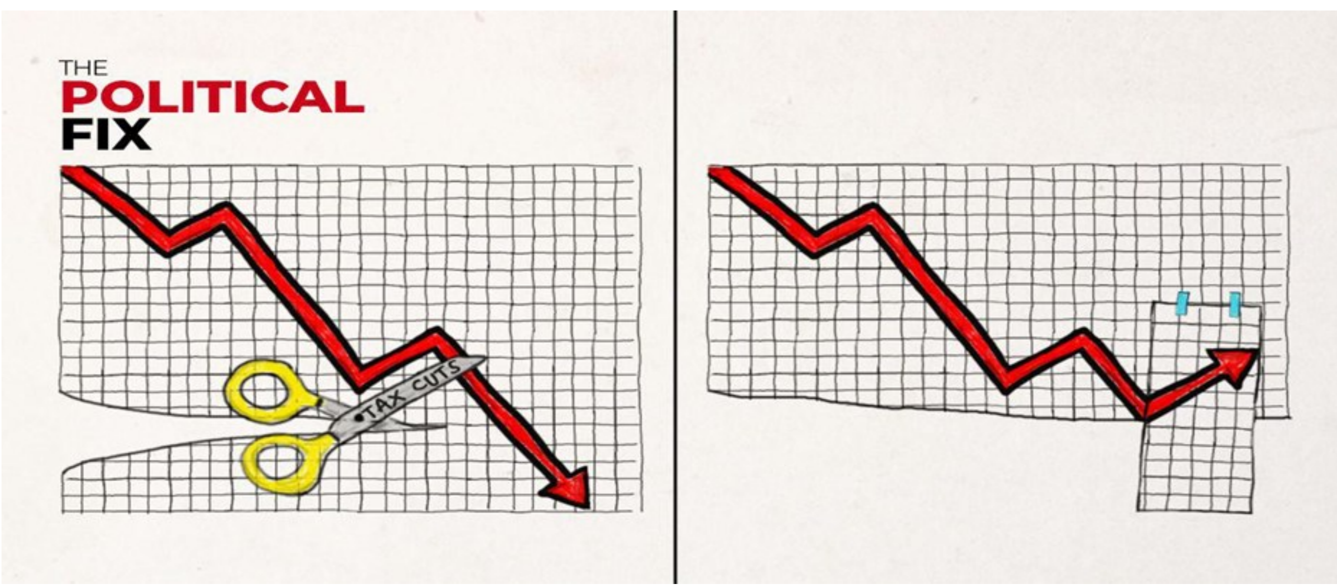
On September 20, Indian economy witnessed one of the major changes in its current structure when Indian finance minister, Nirmala Sitaraman announced the move of reducing the corporate tax rates, from a 30 percent to a surprising 22 percent. It was hailed as a key reform that supplemented aid in the economic slowdown and complimented to the bigger developments that India is looking forward in the future. It will not only help in stabilising the flow of funds in the market but will also encourage the new corporates to come and provide a hand in the economy.

The govt. said, that this change is a much needed and anticipated change that is not only done to promote investments and accelerate growth but also make India as a hub for major companies to start their ventures and fulfil the goal of "made in India" in the next upcoming years. These new rates bring India much closer to the effective tax rates in other emerging markets, and below the threshold set in many developed countries. The hope is that the new rates, which should mean much better profit margins for Indian companies will help the economy to develop and grow at much faster rate.

The key feature of this cut is, that it will began from the current fiscal year which began on April 1. In effect, the companies opting for 22 percent income tax slab would not have to pay minimum alternative tax. Moreover, the effective tax rate for new manufacturing companies will be 17.01 percent inclusive of all surcharges and cess. It has also given reliefs to the company that have make a buyback announcement before 5th July 2019.

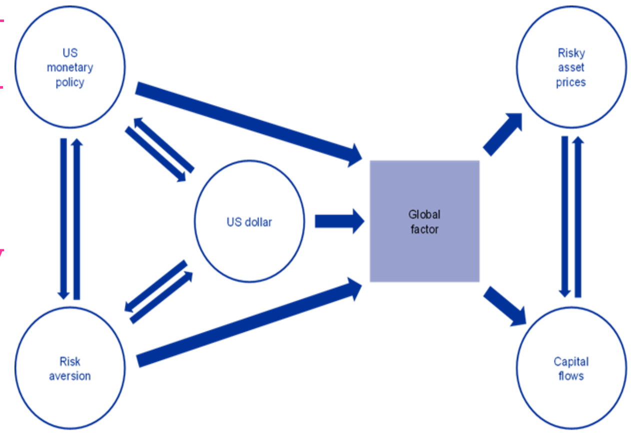
The effects of this tax cut is forecasted huge as it is estimated that nearly 1,000 companies would save nearly Rs 37,000 crores, accordingly with a crisil report. This is nearly a fourth of the total savings anticipated by the government. The government too is anticipating addition of trillions in the investor wealth and will boost the overall economy of the country rapidly.

The market also gave a warm response to this announcement as not only Sensex and Nifty increased over 1200 and 250 points simultaneously but rupee too rallies over 45 paise in a day. Various analyst and marketers have also reviewed it as a bold effort of the govt. and said that it will give a new momentum in the market.



FINANCIAL & MONETARY SYSTEMS

International financial and monetary systems are intimately connected to geopolitical manoeuvring and geo-economic one-upmanship. As emerging markets have become bigger contributors to global GDP, and home to an expanding middle class, that has drawn the attention of global banks. Meanwhile populist movements are questioning monetary institutions like the euro, and China is offering alternatives to traditional development funding sources like the World Bank. As policy-makers try to keep international financial waters calm by pulling back post-financial crisis measures and tackling new challenges such as crypto-assets, their decisions will have a decisive impact on global prosperity.



FINANCIAL RISK AND RESILIENCE

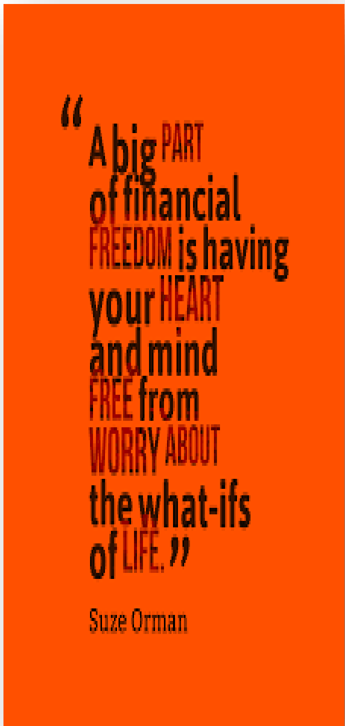
Banks and other financial firms are navigating a new world of risk

The Panama Papers, a trove of documents detailing the efforts of financial and legal firms around the world to help clients avoid taxes (and in some cases facilitate corruption and launder funds), were publicly released in 2015. The following year, the consultancy Oliver Wyman published a report noting that a number of bankers being summoned before parliamentary committees had surged, and that reputation risk was increasingly a focus for supervisory boards and management; its research also showed that the share price impact of a bank's disclosure of a sanctions violation could be six times the size of an actual fine. The Paradise Papers, a second trove of leaked documents, this time detailing the use of secret offshore investment structures, followed in 2017 - further increasing public scrutiny of the financial services sector. Some regulators have begun to take reputation risk into account as they develop rules and regulations for banks. The United Kingdom's Financial Conduct Authority, for example, has introduced a Senior Managers and Certification Regime that requires firms to assess a senior management candidate's honesty, integrity and reputation.

An increasingly significant threat to financial stability is related to cyber risk. According to an International Monetary Fund working paper published in 2018, the 49 cyber-attacks reported to the UK financial authorities during 2017 likely represented an under-reporting of successful attacks during the year, and noted that only 7% of thousands of annual reports filed by US firms in 2017 included references to cyber risk. The increasing interconnectedness of networks used to transfer information means that anything and everything can be exposed, and critical infrastructure (and even basic human rights) can be compromised as a result, according to a report published by the International Telecommunications Union in 2017. In response to cyber-related and other means of financial crime, efforts have been made to better coordinate global anti-financial crime and anti-money laundering efforts. The Financial Action Task Force sets global standards for combatting money laundering, and regularly publishes a list of countries deemed to not be cooperating in international efforts to curb financial crime and terrorist financing.

REFERENCE - *https://intelligence.weforum.org*

Repo crisis becomes Machiavellian opportunity for some investors

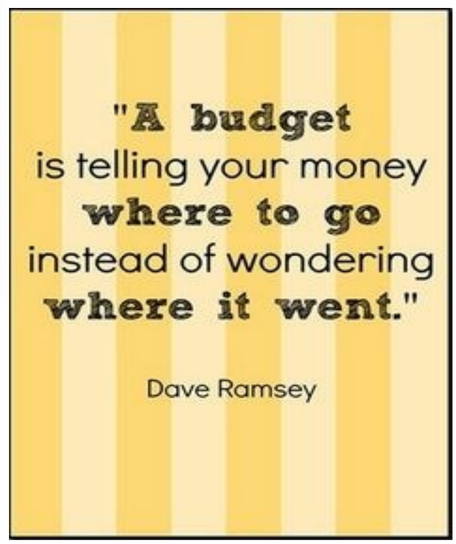


It also became a main theme for fund managers this week as chaos roiled money markets, sending short-term interest rates surging. Traders rushed to profit from the dislocations, knowing that the Federal Reserve would likely step in quickly to calm the market for repurchase-agreement transactions that was ground zero for the turmoil.

In London, BlueBay Asset Management's Kaspar Hense said the $65 billion firm profited from the widening in a key forward rate spread. In Newport Beach, California, Janus Henderson Group's Nick Maroutsos added $35 million in dollar-yen forwards to the firm's short-duration exchange traded fund as the contracts suddenly sported a juicy yield. At Austin Atlantic Asset Management, Sean Kelleher's AAAMCO Ultrashort Financing Fund reacted to a surge in demand for cash.

The widening in what's known as the FRA/OIS spread generally signals stress in the credit markets, such as banks facing challenges in accessing short-term funding or systemic credit stress.

While the US is adding liquidity to stabilize rates, that won't be sufficient to prevent an even more-acute dollar crunch at year-end, according to Maroutsos, so this type of opportunity may arise again in December.



Top Gainers of this week

Company	Current Price	Prev. Close Date	Change	Change %	Week's Low/High
BPCL	480.05	379.85 26-09-2019	100.20	26.38%	372.45482.05
Indusind Bank	1548.00	1282.25 26-09-2019	265.75	20.73%	1271.501554.75
Bajaj Fi-	4000.80	3362.05 26-09-2019	638.75	19.00%	3282.654070.00
Britannia Inds	3092.80	2621.80 26-09-2019	471.00	17.96%	2590.003583.75
Bajaj Finserv	8464.60	7188.65 26-09-2019	1275.95	17.75%	7102.008498.80
ICICI Bank	451.95	386.60 26-09-2019	65.35	16.90%	384.35458.65

Shabdh-Kosh

Blue Chips Stocks

These are the shares of very large and well recognized companies with a long history of sound financial performance. These stocks are known to have capabilities to endure tough market conditions and give high returns in good market conditions..

PMC Bank crisis

RBI raises withdrawal limit to Rs 10,000

Customers of Punjab and Maharashtra Cooperative Bank can now withdraw Rs 10,000 from their savings or other deposit accounts in the next six months. RBI has increased the withdrawal limit from Rs 1,000, says RBI. The RBI has also suspended the Board of the bank on account of major financial irregularities, failure of internal control and systems of the bank and wrong reporting of its exposures under various Off-site surveillance reports to RBI. The relaxation is poised to help over 60 per cent of the depositors of the bank to withdraw their entire account balance.

"The above relaxation has been granted with a view to reducing the hardship of the depositors. The Reserve Bank is closely monitoring the position and shall continue to take further steps as are necessary to safeguard the interest of the depositors of the bank," RBI said in a statement.

To secure the proper management of the bank, the RBI had imposed directions under article 35A of the banking regulations. The RBI directions also restricted the bank to grant or renew any loans and advances for another six months, without prior approval in writing from the central bank. The PMC bank is also restricted to make any investment or to incur any liability including borrowal of funds and acceptance of fresh deposits. Managing Director of PMC Bank, Joy Thomas earlier said that the RBI has taken this action due to an increase in the bank's NPA and he accepted that the bank was not fulfilling a few RBI norms, against which the central bank took steps.

The non-performing assets of the banks have been consistently increasing since the FY16. In FY16, and FY17, the net NPA per cent of the banks was up to 0.96 per cent, which rose to 2.19 per cent in FY19. Higher NPA has led to an increase in the provisioning amount, which doubled on-year from Rs 42 crores in FY18, to Rs 88 crores in FY19, according to the bank's annual report. However, the bank has made a net profit of around Rs 100 crores in the last two financial years and has been in profit for at least the last four years.

Manda Gyan…

Contra fund

A contra fund is distinguished from other funds by its style of investing. A contra fund takes a contrarian view of an asset, when it either witnesses exuberant demand from investors or is shunned by them at a time due.

Reference– Financial Express