FIN-O-DATE

THE FINANCIAL GAZETTE OF MDIM

MDI MURSHIDABAD | Management Development Institute

FINARTHA

THE FINANCE CLUB OF MDIM

WEEKLY FINANCIAL MAGAZINE FOR THE STUDENTS OF MDIM

FIN-O-DATE

THE FINANCE MAGAZINE

LET BUSINESSES OWN THE WORLD
YOU BE THE RULER

ABOUT US

Finartha, the finance club of Management Development Institute Murshidabad formed with the ambitions of bridging the gap between the academic and professional worlds. As a student—run organization, the club brings together students with a shared interest in Finance to enjoy presentations from industry professionals, competitions, quizzes, finance-related discussions, casual and formal networking events as well as a variety of social events. It provides the platform for interactive discussions and orients oneself towards the world of business and commerce. The club plans to get into media through social as well as print media to update the students, academic professionals and industry veterans about its various activities. It thrives on providing the students with additional resources needed to develop themselves into strong candidates for the prospective job market. If one is zealous enough for the activities which go into finance and its substrates then 'Finartha' is the platform to quench that zeal.

FINA₹THA

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MDI MURSHIDABAD Management Development Institute

AUGUST 30, 2020

ISSUE– 61

INDEX

- BSE 39467.31
- NSE 11647.60
- NASDAQ 11695.63
- DOWJONES 28653.87

CURRENCY

- USD/INR ₹ 73.13
- GBP/INR ₹ 97.63
- YEN/INR ₹ 0.69
- EURO/INR ₹ 87.07

Latest By Aug 30th, 2020

TOP GAINERS

Securities	Prev closing	Closing Price	Percentage increase	High/Low
Induslnd Bank	605.60	665.65	9.87%	666.10/595.45
Axis Bank	473.05	509.20	7.64%	512.95/475.10
UPL	496.50	519.25	4.58%	521.00/497.05
ICICI Bank	409.75	409.70	4.46%	411.65/393.25
Sun Pharma	532.25	555.75	4.42%	564.75/534.75

TOP LOSERS

Securities	Prev closing	Closing price	Percentage decrease	High/Low
JSW Steel Ltd.	289.30	280.70	8.60%	289.60/280.00
Hero Motocorp Ltd.	31141.15	3059.35	2.60%	3164.10/3053.00
Power Grid	185.20	182.90	1.24%	186.30/181.90
Dr Reddys Lab	4437.95	4373.05	1.46%	4466.55/4361.15
Infosys	946.40	934.85	1.22%	951.90/933.10

Top market news

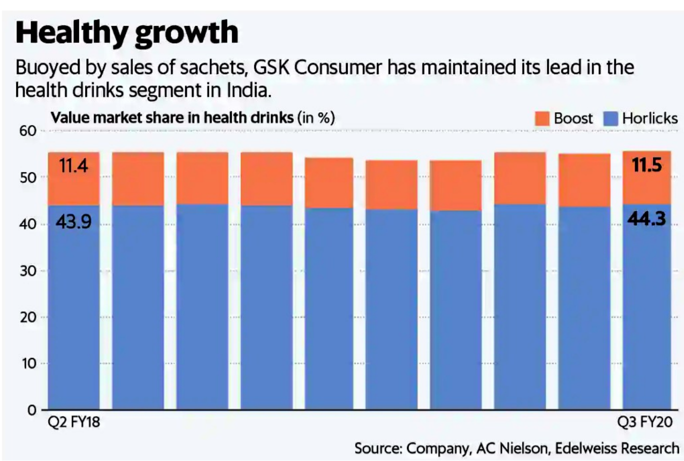
- E-commerce payment system and financial technology company Paytm has reportedly suffered a massive data breach after a hacker group targeted the company's Paytm mall database.
- Promoters of Adani Ports and Special Economic zone have pledged 206.09 lakh shares of the company in favour of Credit Suisse AG to raise Rs 430 crore for a group company, according to a regulatory filling.
- In the futures market, gold for October delivery touched an intraday high of Rs 51,750 and a low of Rs 50,890 per kg on the MCX.
- Benchmark indices rallied more than 2 percent each for the week ended August 28 pushing Sensex above 39,000 while Nifty 50 climbed to 11,600 levels.
- Finance Minister Nirmala Sitharaman is set to review the implementation of the resolution framework for COVID-19 related stress in bank loans. The review will focus on enabling businesses and households to avail of the revival framework on the basis of viability, necessary steps like finalizing bank policies, identifying borrowers and discussing issues that require addressing for smooth and speedy implementation.

HUL and GSK Merger in the light of COVID - 19

For starters, the merger between India's largest packaged consumer goods company and British pharmaceutical company was announced in December 2018. But it was not until recently, may 2020 when the deal was finally concluded which gave HUL more space to dominate Indian consumer market.

Cherry on top what's better than to finally realize the deal with a nutrition based company during a pandemic when the demand for healthy products is sky rocketing high and is further predicted to increase.

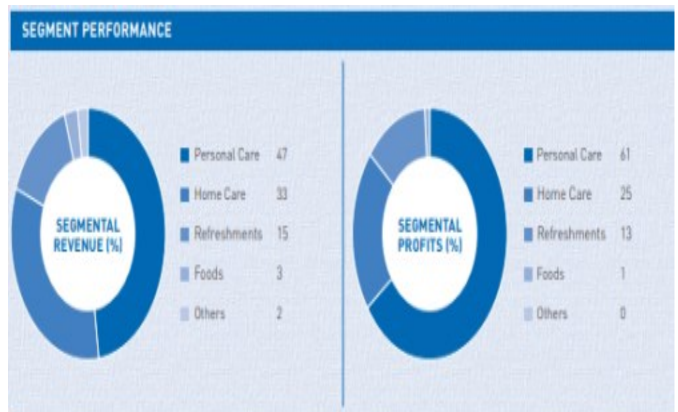
For context, the acquisition of GSK gives HUL access to Horlicks, Boost and Maltova malted drinks and OTC brands such as Sensodyne, Eno and Crocin. The merger completely falls in line with HUL'S strategy to grow its nutritional product portfolio. If we see to it Horlicks has volume share of 50 percent in HFD category and this deal will help HUL tap into this already penetrated market. Regardless this fact however HUL is betting high on chemist and pharamacy channels to sell other OTC brands.



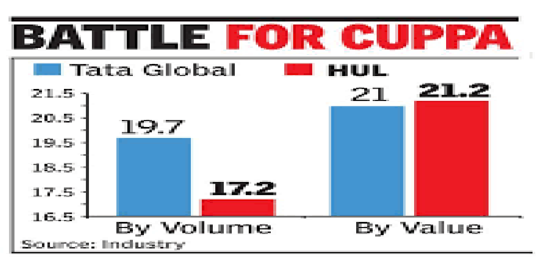
A unique opportunity like this to acquire the No. 1 Health Food Drink Portfolio by leveraging the megatrend of health and wellness in India.

- The deal has enabled HUL to utilize its cash on balance sheet to create value for share-

better salience in a local context.

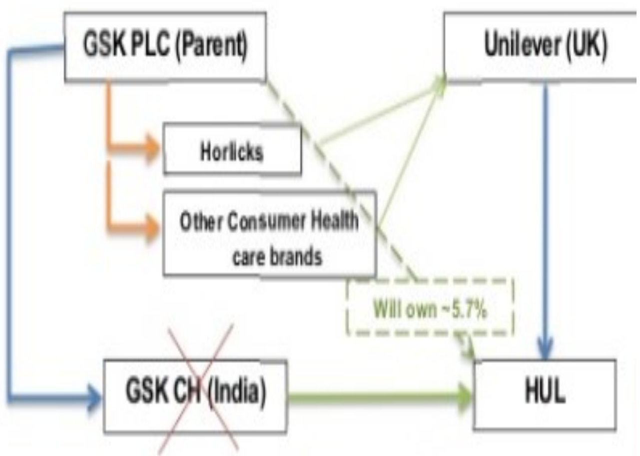


- The HUL's segment performance clearly indicate as to how the food and refreshment sections did not perform quite well in comparison to personal care and home care. This strategic movement will however give HUL a first mover advantage and the pathway to strengthen F&R category.
- HUL has been always been in the practice of occupying a segment as soon as it sees a threat with the cash reserve it sits on. This was seen in the past – when TATA was about to launch Tetley green tea, HUL launched Lipton before TATA could .



Who ended up being in a WIN-WIN position?: SHAREHOLDERS

- In December 2018, when HUL announced acquisition of GSK Consumer, former's shares were roughly at ₹1,717
- But the share sale was eventually concluded at ₹1,905 per share.



After the merger the GSK india will cease to exist giving 100 percent authority of its product potfolio to HUL. This will result increment of Rs. 4200 crore to the total revenue of HUL.

The former's shares were around ₹1,717 each. But only in May 2020 the share sale was concluded at ₹1,905 per share.

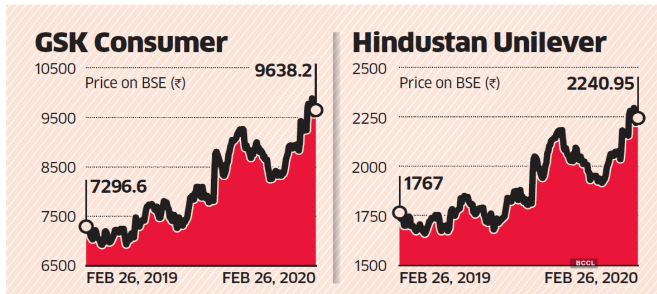
Trading data shows that most of them sold their shares in mid-April, as soon as they were allowed to, and HUL's shares traded between ₹2,450 and ₹2,500 at the time, implying returns of 44% compared to the valuations in end-2018.

As it turns out, HUL shares peaked at about ₹2,500 and have fallen by 20% since. The sale by minority shareholders was timed to perfection.

HUL shares traded at about 55 times earnings at the time. The deal also helped it to increase the share of food and beverages in its product portfolio to about 28% of revenues, from 18% earlier.

Considering all the flux since covid-19, GSK will consider itself fortunate that its proceeds from the GSK Consumer's sale in India have remained virus-proof. Besides, concluding a block deal as high as ₹25,000 crore in a volatile market such as the current one was no mean feat either.

For India, the deal has worked out far better. or GSK Consumer's minority shareholders.



GSK Consumer had been valued at 6.9 times sales when the deal was struck, far higher than the valuation of four times sales Heinz India Pvt. Ltd received when it sold Complan and three other brands a month earlier.

Of course, it has worked out as a win-win for HUL as well, since the company used its highly expensive shares as currency for the deal.

And, in a post-covid scenario, the acquisition of GSK Consumer's Horlicks brand may work out better than expected, as demand for health-related products is expected to rise.

Growing influence of Fin-tech on Indian Financial

Fintech, which is basically the utilization of innovation in money related administrations, has seen a flood lately attributable to sensational innovation progresses alongside post-emergency changes in guidelines. The money related administrations division has seen another influx of members, including Fintech new businesses, web-based business, and innovation firms, close by occupant budgetary establishments. Fintech is a dynamic and differing industry which is yet developing. Consequently, there are various meanings of Fintech.

"Fintechs are high development associations consolidating imaginative plans of action and rising advancements to empower, improve and upset Monetary Administrations. This definition incorporates new companies, develop organizations and even non-FS organizations working in the computerized fund space"

In the course of the most recent couple of years Fintech has had a noteworthy effect on the money related administrations part, not just rethinking the improvement of monetary administrations items yet in addition making exchange channels of conveyance, and giving the chance to altogether grow the span and extent of budgetary administrations. The customarily money driven Indian economy has reacted well to the fintech opportunity, principally set off by a flood in web-based business, and cell phone infiltration. The exchange estimation of the Indian fintech division was evaluated to be around USD 33 billion out of 2016 and is conjecture to reach USD 73 billion of every 2020 developing at a five-year CAGR of 22%*.

Notwithstanding purposeful endeavors, banks have not had the option to cover a critical lump of populace under the domain of budgetary administrations, which has allowed a chance to fintech organizations. Numerous fintech organizations are working in various manners to contribute toward accomplishing further money related consideration in zones, for example, microfinance, computerized installments, credit scoring and settlements. MSME financing is another zone where Fintechs have indicated early guarantee. The area is seeing the rise of new Fintech players tending to the basic issues of data asymmetry and diminishing turnaround times for endorsing advances to private ventures. Fintech likewise holds the guarantee of bringing down the expense of credit, especially by bringing down working costs for moneylenders. Better KYC strategies lower due persistence costs and working costs. Fintech likewise can possibly affect Administration in a few different ways. To start with, Fintech can possibly build straightforwardness as it diminishes the requirement for money and more installments are made through advanced implies that can be better checked. Besides, the ascent in financial movement could decrease the size of the casual division if Governments animate and encourage organizations to formalize. Thirdly, expanded business exercises and an improved work advertise increment the Administration's assessment base to build consumption.

The coronavirus pandemic is a profoundly irregular situation, and in a few different ways we are in unfamiliar waters. In this short report we will apply our apparatuses, our signs, and our pariah way to deal with:

recognize downturns and novel exogenous stuns

show that business sectors tend not to front-run novel exogenous stuns in the same way they attempt to front-run standard business cycles or income cycles

show that an unmistakable improvement in the basic occasion is typically required before we get a tradeable base for novel stuns

show that once the current pandemic passes "top dread", there is gigantic improvement standing ready

feature the most beat-up ventures that are moving toward a once-in-a decade purchasing opportunity

FinTech or monetary innovation has risen as a generally new industry in India. FinTech is an industry containing organizations that utilization innovation to offer budgetary administrations. These organizations work in protection, resource the board and installment, and various ventures.

India's budgetary innovation area might be youthful however is developing quickly, powered by an enormous market base, an advancement driven beginning up scene, and well-disposed government strategies and guidelines.

A few new businesses populate this rising and dynamic area, while both conventional financial foundations and non-banking budgetary organizations NBFCs are playing make up for lost time.

Not long ago, NASSCOM announced that around 400 Fintech firms worked in India, supported in enormous part by unfamiliar interests in Fintech centered beginning up quickening agents and hatcheries.

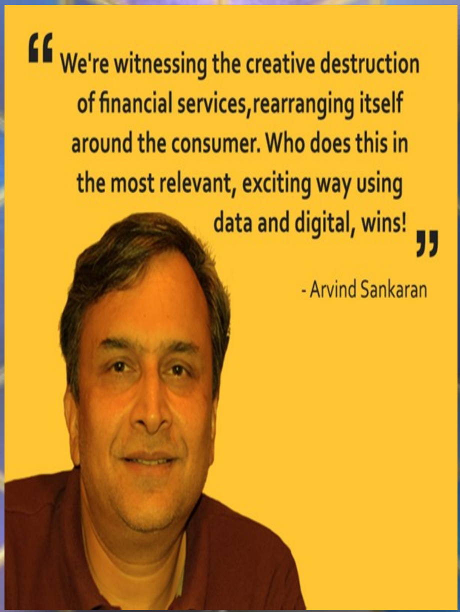
Challenges and opportunities for fintech expansion

While advanced money firms have profited by the administration's supportive of startup approaches and adaptable administrative conditions forced by the Hold Bank of India (RBI). formal organizations have a set up foundation and inheritance that is not effectively replaceable.

Fintech new businesses need to ingrain more noteworthy certainty among Indian clients, known for being moderate in their monetary inclinations.

Making sense of how to market to their requirements and impact monetary conduct are probably the greatest difficulties, as is setting up a solid and responsive administrative foundation to keep pace with the speed of mechanical advancement.

Then again, customary banking and money related organizations can use their current client base and receive computerized items that support solid monetary and adopt digital products that nurture strong financial relationships while improving service efficiency and broadening access to meet challenging needs.



Long Term Capital Management (LTCM) crisis

Long Term Capital Management was a hedge fund based in Greenwich, Connecticut that used absolute return trading strategies combined with high financial leverage. LTCM was founded in 1994 by John Meriwether, the former vice-chairman and head of bond trading at Salomon Brothers. Members of LTCM's board of directors included Myron S. Scholes and Robert C. Merton, who shared the 1997 Nobel Memorial Prize in Economic Sciences for a "new method to determine the value of derivatives" and given a famous model called “Black Scholes Model”.

Initially successful with annualized return of over 21% (after fees) in its first year, 43% in the second year and 41% in the third year, in 1998 it lost $4.6 billion in less than four months due to a combination of high leverage and exposure to the 1997 Asian financial crisis and 1998 Russian financial crisis. The master hedge fund, Long-Term Capital Portfolio L.P., collapsed in the late 1990s, leading to an agreement on September 23, 1998, among 14 financial institutions, which included; Bankers Trust, Barclays, Chase Manhattan Bank, Crédit Agricole, Credit Suisse First Boston, Deutsche Bank, Goldman Sachs, JP Morgan, Merrill Lynch, Morgan Stanley, Paribas, Salomon Smith Barney, Société Générale, and UBS, for a $3.6 billion recapitalization under the supervision of the Federal Reserve. The fund liquidated and dissolved in early 2000. Some of the reasons of LTCM crises:-

⇒ LTCM had a contrarian view and indulged in relative value trade. The general public were buying on the run securities and sell off the run securities, LTCM had a contrarian view and they bought off the run securities and sold on the run securities earning a risk premium differential and neutralizing other risk measures like duration and convexity.

⇒ Convergence Strategies– LTCM went long on Russian government securities and short on treasury securities because LTCM thought that markets have overestimated the risk the risk on Russian securities, market will correct its estimation and the yield on Russian sovereign securities will fall. However there was Rubble crisis.

⇒ The mathematical model of LTCM signaled that current volatility is much higher than historical levels, since volatility is mean reverting therefore LTCM take short position in options. However instead of decrease in volatility, its shoots up.

⇒ LTCM raise huge funds from the top Investment Banks and also did not decrease the original positions causing the leverage ratio of LTCM to the level of 28:1.

⇒ Tail risk was not adequately captured using stress testing and scenario analysis.

⇒ The complicated models of LTCM contained lot of assumptions which might not be correct. The models were relaying heavily on historical data but as we know history may not repeat.

⇒ So, finally margin calls triggered and LTCM did not have liquidity resources to meet those margin calls. The margin calls were triggered because of losses from Russian crisis, flight to quality and the Solomon brothers getting rid off huge arbitrage positions. It has been said if LTCM had liquidity for a very short period, they would have been a very successful fund gen-

TEAM FINARTHA

The FINANCE CLUB OF MDIM

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