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.

FINARTHA

MDI MURSHIDABAD Management Development Institute

FIN-O-DATE THE FINANCE MAGAZINE

October 3, 2020

ISSUE– 64

INDEX

- SENSEX 38697.05
- NIFTY 50 11416.95
- NASDAQ 11075.02
- DOWJONES 27682.81

CURRENCY

- USD/INR ₹ 73.14
- GBP/INR ₹ 94.77
- YEN/INR ₹ 0.69
- EURO/INR ₹ 85.81

LATEST BY:
OCT 3rd, 2020

TOP GAINERS

Securities	Prev closing	Closing Price	Percentage increase	High/Low
IndusInd Bank	527.40	592.2	12.44%	597.05/537.00
Bajaj Finance	3278.60	3442.80	5.04%	3460.00/3315.05
Axis Bank	424.65	443.70	4.10%	445.30/427.40
Bajaj Auto	2881.10	2999.00	4.09%	3113.95/2940.00
ICICI Bank	354.75	368.50	2.88%	371.20/358.25

TOP LOSERS

Securities	Prev closing	Closing Price	Percentage decrease	High/Low
Dr Reddy Lab	5187.80	5120.00	1.31%	5256.00/5088.40
ONGC	69.25	68.90	0.51%	69.40/66.65
ITC	171.70	170.90	0.47%	174.60/170.10
NTPC	85.10	84.75	0.41%	85.80/84.50
Hindalco Ind	175.25	174.55	0.40%	179.25/173.50

TAKE-O-TRADE

SPOT	SIGNAL	TAKE AT	TARGET 1	TARGET 2	STOP LOSS
CIPLA	BUY	830.00	880.00	900.00	780.00
CADILA	BUY	408.00	430.00	444.00	390.00
IndusInd Bank	BUY	625.00	700.00	730.00	585.00

Market Watch

- US Stimulus package kept the global market lively.
- Nifty touched 11400 mark and formed Inside Week Candle, there might be a pullback.
- BEER ratio is 1.22, near the 10-yr average therefore upward momentum might continue.
- VIX is down by 6.04% projecting a good picture for the coming week.

What's Brewing In The Market?

Jio fibre arm to raise ~14,700 cr via InvIT offer

Reliance Industries Ltd (RIL) on 1st October started the process of monetising its fibre optic network via an infrastructure investment trust (InvIT) structure. Digital Fibre Infrastructure Trust (DFIT) will raise around ~14,700 crore by issuing units to its investors, and raise another ~25,000 crore by way of debt, which will be used to retire the debt of the fibre optic arm. The 51 per cent of the fibre optic business will be owned by DFIT, and the rest by RIL.

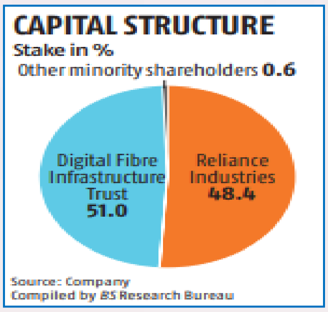
According to the prospectus filed with the SEBI, the fundraising will be done by seeking investments in DFIT and issuing units to the investors. The fibre optic unit, which was earlier part of RIL's subsidiary Reliance Jio, has a debt of ~87,296 crore, which includes the suppliers' credit.

JIO DIGITAL FIBRE

Key financials

Figures in ₹ crore	FY19	FY20
Net worth	41,286	46,586
Borrowings*	71,878	77,458
Revenue	0	6,140
Loss before tax	-17	-6,874
Loss	-17	-5,144

*Includes other financial liabilities



Reliance Industrial Investments and Holdings Ltd, being the sponsor, will be allotted 15 per cent of the units on a post-issue basis. These units will be locked in for three years. The unit holding of the trust also includes Reliance Projects & Property Management Services Ltd, the contractor for the execution of the fibre optic project, which will hold 44 per cent of the units, while Jamnagar Utilities Power Pvt Ltd (JUPPL) will hold 24 per cent. Sikka Ports will pick up the rest of the units, according to the prospectus.

Financial services the next battleground for PhonePe, Amazon and Google

PhonePe has become the fastest-growing insure-tech distributor in India

After digital payments, financial services is becoming the next big battleground for players such as PhonePe, Amazon, Google and Paytm. The size of the Indian financial services market could touch around $340 billion in the next few years.

Walmart-owned PhonePe said it had sold over 500,000 insurance policies on its platform during April - August period. This makes PhonePe the fastest-growing insure-tech distributor in India within 9 months of the insurance category going live on the app.

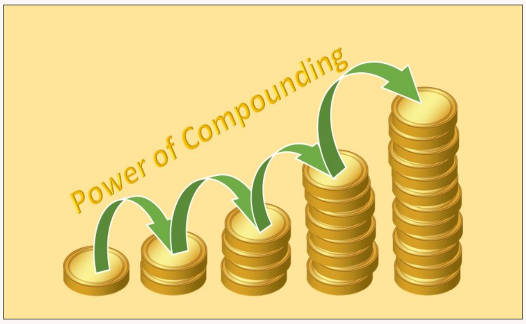
PhonePe forayed into the insurance segment in January. It was the first digital payment platform to launch international travel insurance for business and leisure travellers. Since April, it has launched five more insurance products that include Covid-19 insurance, domestic travel insurance and the hospital daily cash. The other products deal with dengue and malaria insurance and personal accident cover in addition to international travel insurance.

"Customers continue to repose their trust in PhonePe as they find buying insurance on our platform affordable, simple to understand and easy," said Hemant Gala, vice-president for financial services and payments, PhonePe. "This is in line with our goal to be a one-stop destination for all insurance needs of our customers. PhonePe is in talks with multiple insurers and have many products in the pipeline which will be launched in the coming months." The PhonePe app has seen insurance purchases from over 15,000 pin codes. Over 70 per cent of PhonePe's users come from tier- 2 and -3 cities, with many users buying insurance for the first time. The leading tier-2 and tier-3 cities for insurance sales on PhonePe are Visakhapatnam, Jaipur, Ahmedabad, Nashik, Vijayawada, and Aurangabad.

MYTHS ABOUT WEALTH CREATION

Financial lessons are mostly learned the hard way as our formal education system barely touches them. It is for this reason that a lot of basic financial lessons, like the power of compounding or real returns are not known to the masses during their active working life.

Yet, individuals for the most part have confusions which pull them back from building riches and in the long run puts a full stop to their financial independence.



Myth – People who earn more are rich.

Its not what you Earn but what you save (and judiciously invest) that makes you wealthy.

Myth – Investment requires a lot of money

Many people think they need to wait until they have accumulated a large sum of money. The fact is you can start investing in mutual funds with a sum as less as ₹500 per month.

Myth - We know all wonders of the World

We all know the seven wonders of the world but no one knows about the 8th wonder of the world which is the magic of Interest compounding. Systematic Reinvest of your money over a period of time can generate wealth that is unbelievable to most

Myth – Stock/ Scheme selection is more important than Asset Allocation.

Most people believe that the true wealth creation happens due to proper selection of stock or a mutual fund scheme. They underestimate the power of Asset Allocation. Asset allocation is the most important determinant of portfolio success. It is the division of the entire investible corpus into broad asset classes such as Equity, Bonds, Debt, Real Estate, Cash & Cash equivalents. The goal is risk reduction and risk diversification.

Myth – "I don't make enough money to save"

No matter how little you can save, the habit of putting aside a little bit each month will generate the motivation to better manage your money, regardless of how much you're currently making. Today, we have a large variety of Mutual Fund schemes available to suit the needs of every type of investors.

Myths - Investing in schemes that promises very High returns is safe

Thousands of crores of hard-earned money of poor investors have been lost in last few years in various fraud schemes. The promotors of these schemes exploit the lack of knowledge of gullible, uncertified agents to trap small investors. **Investors are advised to invest in completely regulated investment tools** like PPF, Mutual Funds, NPS, Bank Deposits etc.

To sum up, important money lessons

- Start Saving Early, for the long term and in right Asset Class
- Inflation is a Reality. You can beat it by investing in right Asset Class
- Investing can be started with a very small sum
- Understand and Gain from the Magic of Compounding
- Right Investment Portfolio would have more than one asset class.
- MF is a fantastic investment tool.
- Be cautious. Do not invest in unregulated and fraud schemes.

Sovereign Debt and its impact on the economy

When the central government of a country borrow money either from within the country or outside the country to meet government expenditure requirement not covered by available funds it is known as sovereign debt.

Debt has been around us since time immemorial and has both built and brought down the societies, Lebanon being its latest victim. Today, most countries around the world have been thriving on a system run by creditors and debtors, both domestically and internationally. As economies develop government requires more funds to build infrastructure, promote healthcare, education. Now the fund required can be fulfilled by either charging more tax on citizens, print money or borrow funds from either internal or external sources through various instruments like Government bonds, treasury bills. But the first option is not viable, let us know why.

Why can't government charge high tax on its citizen and corporates?

Let us take an example of a salaried employee Ms Sunita Patel (assumed name) she earns INR 70,000 per month and let the tax rate is currently 60%. Therefore she will be left with only INR 28000. The situation is going to be same if the government starts charging heavily on corporate houses or MSME. This situation is likely to result in very little economic activity that too, illegally or informally. It may be a good bet to assume that this country would have faced significant brain drain as the more productive citizens and corporations relocate to foreign countries with better business conditions.

Why can't government print as much money as they want?

We all wished to have a treasury of our favourite thing and the government just have that. Under the Fiat currency system, the government can print as much money as they want as it is not backed by gold as it was in the case for Gold standard (Gold standard was replaced by Fiat currency system American president Richard Nixon in the year 1971) . The value of fiat money is derived from the relationship between supply and demand and the stability of the issuing government, rather than the worth of a commodity backing it as is the case for commodity money.

The government refrains from printing too much money as it may increase inflation if production doesn't increase sufficiently. This is because too much currency creation can result in high levels of inflation in the economy which is generally considered undesirable. Let's take an example. In 2 consecutive given year, a country produces 100 pieces of cloth. At the end of 1st year Government print money so now there is more money in circulation so the demand for clothes increases and the price also increases. Now consumers pay more money for the same cloth and thus ultimately decreasing their real purchasing power. We have also seen what happened with Zimbabwe and Venezuela for the same reason.

Thus, inflation decreases the value of the currency in terms of the purchasing power of a consumer. When inflation is high, a consumer can buy fewer goods with the same amount of money. This decrease in the purchasing power causes the local currency to lose value against foreign currencies in the foreign exchange market as people start demanding less of it. That is, you would have to now pay more units of the local currency to get one unit of the foreign currency, also called depreciation of the local currency, which may or may not be desirable depending on whether the country has high export or import. So let say India is a high exporting country while the USA being a high importing country. Now if Indian Rupee is depreciated a person in the USA will be more interested to purchase a good since he pays in Dollar thus paying less. In this situation depreciating currency will be beneficial but if a country has to make a high amount of imports or already have high debt then depreciating currency can prove to be costly. Example, countries importing Oil should try to keep their currency rate on check.

Why can't government repay its debt by printing money?

Typically, countries that have debt denominated in their own currency could, in principle, print the currency to repay the debt. This implies that this would result in inflation. When this becomes hyperinflation, there is almost nothing favorable about the situation, however, a little inflation can actually aid in reducing the real value of the debt - popularly known as inflating away the debt. A higher amount of currency in circulation essentially erodes the purchasing power of each note, thereby implying a fall in the real value of the local currency-denominated debt.

This gets even more onerous, when countries like Lebanon, which have borrowed in foreign currency, mainly US Dollars, owe large sums of money to the creditors in a currency over which they have no printing authority.

Time for some theories

External and Internal Debt: Debt issued to foreign investors, foreign corporations or foreign central banks is generally termed as external debt, in contrast to internal or domestic debt, which is issued to the lenders within the country.

Original Sin: In some extreme cases, due to a dearth of confidence in the local currency because of weak economic or political fundamentals, a country might be unable to borrow funds in the local currency abroad. This is termed as Original sin. It has often been seen that countries with original sin have a higher probability of facing currency mismatches and losing the ability to repay.

The debt crisis and Sovereign default: An economy which is unable to repay this sovereign debt (domestic and external) is said to be facing a debt crisis and if the country misses a payment, it is said to be in a sovereign default.

FIN-SCAMS: This series will cover some major scams which occurred in the financial market and significantly affected the economy.

The Satyam scandal was a Rs 7,000-crore corporate embarrassment in which administrator Ramalinga Raju admitted that the organization's records had been falsified. On January 7, 2009, Ramalinga Raju sent off an email to SEBI and stock trades, wherein he admitted and confessed to inflating the cash and bank balances of the company, Satyam computer services ltd was started in 1987 at Hyderabad by the Raju siblings, Rama Raju and Ramalinga Raju. The organization was very effective. Henceforth, they went ahead to get it recorded. The organization got recorded in the Bombay stock trade in 1991. Around then the portions of Satyam ltd were oversubscribed by multiple times. The organization end up being an ace in its field and packed away numerous honors. Ramalinga Raju turned into the director in 2006 and got the honor for the Ernest and Youngest Entrepreneur in 2007. Soon their annual revenue touched 1 billion and by the end of 2008, it crossed 2 billion. The organization spread its wings to 20+ nations and the business sprouted step by step.

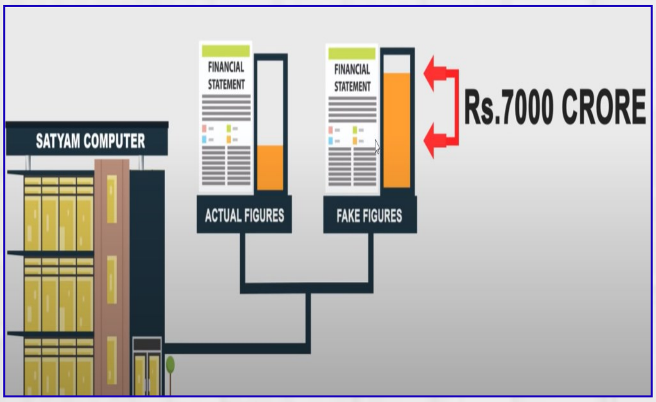
Why did the scam took place?

The cash so raised was used to purchase several thousands of acres of land across Andhra Pradesh to ride a booming real estate market. According to some sources it is to be believed that Raju had a fair idea about the proposed metro route of the city, and due to that reason he started to buy land in those areas so that a large amount of profit can be earned afterwards. But due to this aggressive investment in the real estate sector Satyam Computers started to face the shortage of funds.

Raju Ramalinga

Manipulation of books of Accounts

Mr. Raju continued rehearsing this framework and he believed that he will acquire benefits once the costs of the properties starts to increase. Further, he planned to balance the amount when he incurs profit from the properties purchased. Meanwhile, the manipulations in the books of accounts made sure that the condition of company seemed growing and incurring profits. With time, the gap in the actual profits and the profits shown in books of accounts kept growing. As Ramalinga was not showing the actual state of affairs of the company the manipulated figures helped in the increase of the share price and subsequently Raju used to sell his shares in order to invest more in the real estate market. Additionally some percentage of shares were also used as a collateral to obtain loans from various banks. Near about 365 companies were incorporated in order to purchase land. Raju created near about 7500 fake invoices in order to show to revenue of the company is on track subsequently fake bank statement were also created to show that the amount of profit are kept as a cash reserve. This fake operations were continued till 2008, and the promoter shareholding dropped to 2% in 2008 from 24% in 1999 as the shares held by Raju were sold and all the money were being invested in real estate.



Because of the downturn in the 2008 the costs of land diminished thusly thus so as to fill be hole Raju wanted to acquire 51% of 'MAYTAS INFRA' and 100% of 'MAYTAS PROPERTIES 'which were an organization of the Raju family only, in order to show that the deals were done with the amount of profit. But the institutional investors were against this arrangement, Soon after the deal broke 4 independent directors of SATYAM resigned and on seventh January 2009 Raju composed a letter to SEBI and admitted pretty much all the fake exercises.

On April 2009 ‘TECH MAHINDRA’ acquired 51% shares of ‘SATYAM’ and named it ‘MAHINDRA SATYAM’.But on June 2013 merged with ‘TECH MAHINDRA’.SEBI in 2014 ordered that Mr. Ramalinga Raju and 4 others should be barred to deal in the markets for 14 years and also asked for an amount of Rs. 1,849 crores worth of unlawful gains with interest. The Special Bench constituted, sentenced the Mr. Raju and all the other accused of a jail term of seven years and also imposed a penalty of Rs. 5 crores.In the year 2017 SEBI banned PWC who were the auditors of the company for 2 years,and SEC imposed a fine of 6mn$ on them.

TEAM FINARTHA

The FINANCE CLUB OF MDIM

BATCH OF 2019-21 & BATCH 2020-22

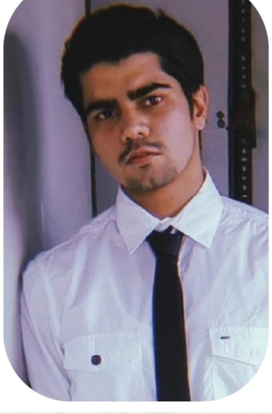
ISSUE - 64 | DATE - 3rd October

Devansh Chokhani | Abhishek Satpathy | Neha Kedia | Puneet Agarwal | Jitendra Kumar (Secretary)


Shubham Bhattacharya


Joy Dutta


Megha Poddar


Rahul Dhankhar


Navin Srivastava