N. L. Dalmia®
Institute of Management Studies and Research
(A School of Excellence of N. L. Dalmia Educational Society)

DELTA
VOL-19

ENVISIONING CHANGE

IN THIS ISSUE

ABOUT NLDIMSR

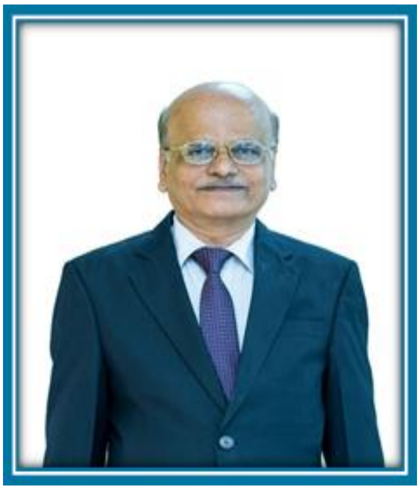
N. L. Dalmia Institute of Management Studies and Research (NLDIMSR) was established in the year 1995 by the Late Shri Niranjanlalji Dalmia with a vision to become a World Class Management Institute Currently, N. L. Dalmia Institute of Management Studies and Research ranks among the top B-schools of India and one of the most preferred business schools in Mumbai.

N. L. Dalmia Institute of Management Studies and Research commenced its academic programme in the year 1997.

NLDIMSR strives to achieve its mission, "To provide value based quality management education with a global outlook and social conscience" under the power-packed leadership of Hon. Secretary of N.L Dalmia Educational Society Shri Shailesh Dalmia. Our CEO Prof. Seema Saini has played an instrumental role in grooming the future leaders. Our Dean Academics Prof Dr. Dinesh Hegde encourages the students to strive for excellence imbibing knowledge and wisdom.

SHRI SHAILESH DALMIA
HON. SECRETARY,
N.L.DALMIA EDUCATIONAL SOCIETY, MUMBAI

PROF. SEEMA SAINI
CEO,
N.L.DALMIA EDUCATIONAL SOCIETY, MUMBAI



DR. DINESH HEGDE
DEAN – ACADEMICS,
NLDIMSR,
MUMBAI

ABOUT FINANCE FORUM

Finance Forum is an executive body of N. L. Dalmia Institute of Management Studies and Research managed by student representatives. It organizes and aims at inspiring students to participate in National Level B–School competitions. It also encourages them to undertake research and enhance their career prospects.

Apart from Mulyankan, a National Level B-school paper presentation competition, Finance Forum also organizes various Finance related events, workshops, guest lectures and seminars by prominent personalities from the finance industry.

It also publishes DELTA, a semi-annual financial e-magazine prepared by students of N. L. Dalmia Institute of Management Studies and Research.

The Finance Forum is currently headed by Prof. Dr. Anil Gor - Ph.D. (Mergers and Acquisition), LL.M, MFM, M. Com, FCS and CAIIB.

IN THIS EDITION

Prof. Dr. Anil Gor
HOD Finance

FROM THE DESK OF HOD FINANCE

It is matter of great pleasure that the 19th Volume of Delta- an E magazine of Finance Forum, is being released on the occasion of Vishleshan 2019 on 9TH February, 2019.

The underlying theme of Delta is to encourage the students to think and write. The entire process of writing, editing and publishing work is done by the students.

It is also heartening to note that our alumni of 2001 batch Mr. Raju Ramnathan, Vice President – Business Analyst / Project Manager of Nomura International Plc, working at UK has continued to offer his services as Consulting Editor of Delta. The articles selected in this magazine are written by the students reflecting their thought process on various topics.

Editors of Delta are also recognised as Campus Reporters for Business Standard and many of the events of the Institute reported by these campus reporters have been published in Business Standard under the column "Campus Talk."

Apart from writing of articles by the students, Finance Forum- an Executive Body of Finance students, has been very actively organising various events the details of which have been covered in this issue, which will be sent to all the students and alumni as well as placement partners by e mail.

I wish all of you a very happy reading and take this opportunity to wish you all in advance, happy festive season ahead.

With regards,

Dr. Anil Gor
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EDITORIAL

Welcome to the nineteenth volume of the bi-annual e-magazine DELTA, comprising contributions from young leaders in the making, esteemed faculties, and alumni, on the latest business and economic trends, summer internship interview experiences, industry expert seminars and expert views on the finance industry.

Heartfelt appreciation to Professor Dr. Anil Gor, Head of Finance Forum, for his constant guidance and support. Team Delta is honoured to have on board Mr. Raju Ramanathan (1999-2001 batch), Vice President-BA/PM in Nomura, U.K. as the editor. We would also like to extend our gratitude to Professors Dr. Jyoti Nair, Narayan Murthy, Durba Chakrabarty and Khushboo Vora and for their help and constructive feedback, and the entire Finance Forum team for their help in making this tabloid a success.

The magazine hopes to facilitate the students in their journey of discovering knowledge through pieces on not only current events and trends, but also on real life experiences and learnings of industry experts. We hope that the readers find the issue an interesting and knowledge enriching read.

Mr. Raju Ramanathan
Co-Editor

FROM THE DESK OF CO-EDITOR

Mr. Raju Ramanathan did his Post Graduation (M.M.S.) with specialization in Finance from NLDIMSR in the years 1999-01. He then joined TATA Finance as Executive – Marketing working in areas of Product Management, Budgeting, Sales, Credit Risk etc.
He then worked at numerous other organizations like: -

- ICICI Bank Limited (Area Credit Manager),
- HDFC Bank Limited (Area Credit Manager),
- Indiabulls Credit Services Ltd (Regional Credit Manager),
- Mphasis Ltd (Senior Business Analyst)
- Pershing Ltd (Product Analyst)
- Lombard Risk (Business Analyst)

After working as, a Business Analyst at Lombard Risk, London, United Kingdom, he joined Nomura, London in September 2014 as Vice President – BA/PM. During the same time, he also completed his Masters in Finance from London Business School. He holds a total of 15 years of Industry Experience.

The whole Delta Team is glad and privileged to have him on board as our Co-Editor.

Prof. Dr. Jyoti Nair

NORMS FOR E-COMMERCE – END OF DEEP DISCOUNTS?

Amazon' The Great Indian Sale' and Flipkart's 'End of Season Sale' may soon be a thing of the past in light of the proposal for a new e-commerce bill.

Nearly 45,000 offline retail stores selling mobile phones have closed down in the last one year due to steep discounts given by e commerce companies, (The Indian Cellular and Electronics Association, November 2018)

There is a simmering discontent amongst traders, brick and mortar retailers, farmers and small e-commerce companies over such predatory pricing followed by large e-commerce companies. It is alleged that e commerce companies like Flipkart and Amazon are selling at low prices on account of bulk buying from companies in which they have stake. Also large scale advertisement of selective products which is against the B2B policy norm is rampant. What does the law say?

Currently, there is no specific Act or law governing e-commerce companies barring few provisions in FDI rules. E- Commerce is one of the fastest growing sectors in India pegging a CAGR of 24%. The sector is expected to touch USD 120 billion by 2020. It witnessed private equity and venture capital deals worth USD 1129 million in 2018, (IBEF Report 2018). With companies like Walmart and Google eyeing the Indian E-commerce space, growth expectations from this sector is high. How does one ensure good governance in this booming sector? Need for an e-commerce policy was felt leading to issue of Press Note by Department of Industrial Policy and Promotion (DIPP) in 2016. However, there were serious allegation levelled against these companies for non-conformance to various laws and rules, FDI, Competition Act, FEMA to name a few. Taxation of these companies was also a challenge. This paved the way for announcement of draft e-commerce bill and also recent amendments to FDI rules. It also proposes a regulator for e commerce companies. Press Note 3 in FDI policy lays down certain regulations for e- commerce players:

(i) 100% FDI under automatic route is permitted to B2B e-commerce and not B2C e-commerce
(ii) An e-commerce entity can sell only upto 25% of its sales from one vendor or their group companies.

The above two clauses were meant to ensure level playing field to all e-commerce entities. However, these rules were not strictly implemented. An e-commerce bill in the near horizon with a regulator and recent amendments to FDI rules for e-commerce may be the game changer. The amendment clearly distinguishes market place based model and inventory based model of e-commerce. A market place e-commerce model means the e-commerce company acts as a facilitator between the customer and the seller by providing a platform for conducting transactions through electronic or digital network. Such companies do not directly sell to customers nor do they own merchandise/services offered for sale. They only enable business between buyers and vendors by offering them an electronic platform thereby allowing large number of buyers and sellers to transact with each other in a fair and efficient manner. E-bay, Shop clues, Amazon, Flipkart are examples of companies using market place e-commerce model. An inventory based e-commerce model, on the other hand, owns the merchandise/services sold through its electronic /digital platform. Such companies directly deal with its customers. Inventory and logistics management, advertising and other ancillary business function are also actively done by them. Jabong.com, Ajio.com, Bigbasket use inventory based business model.

The amended rules can be understood as:

(i) 100% FDI under automatic route is allowed only in market place model and not on inventory based model.

(ii) A vendor is not allowed to sell on an e commerce marketplace if such market place entity or its group companies hold any stake or equity participation in Vendor Company.

(iii) Services provided by e commerce market place to vendors in the form of logistics, warehousing, advertisement etc. have to be non-discriminatory.

(iv) Market place E- commerce entity cannot directly or indirectly influence the sales price of goods and services.

(v) Market place e-commerce entities are prohibited from giving guarantee/warranty/ order fulfilment promise on any goods/services sold on its platform.

(vi) Market place entities have to submit a certificate, along with statutory auditor's report confirming compliance with the guidelines under the Press Note to RBI, by the 30th of September every year, for the preceding financial year.

The amendments are expected to prevent misuse of law on account of ambiguities and offer a competitive and transparent business space to all e-commerce entities. The proposed e-commerce bill lays down provisions w.r.t differential pricing, review of mergers in e-commerce industry, regulation of payments and consumer protection. To boost e- commerce industry in India, it is important to have the sustainable business model which supports not only the e-commerce entities but also the sectors directly or indirectly related to e-commerce business.

Walter G. D'Mello
Alumni (1999-2001)

ALUMNUS SPEAKS

IT'S NOT HOW GOOD YOU ARE, BUT HOW GOOD YOU WANT TO BE

The average attention span for the notoriously ill-focused goldfish is 9 seconds, and that of humans approximately 8 seconds (TIME magazine) so I hope you will out-beat this record to read my article.

As I stumbled out of St. Xavier's college with a degree in Physics, I had no aspiration to pursue a Masters or do an MS in US, that left me with few undesirable career options. So, I took the CET with little or no motivation, As they say "if you fail to prepare, then prepare to fail" I was prepared for the latter, however to my surprise a new MBA college (circa 1999) had opened in the poorer suburbs of Mira Road and I was offered an admission in NLDIMSR, the USP was the director Late. Prof. P.L.Arya who was known to be an institution builder and a brand name in the field of management studies. Rest is history, as they say everyone passes MBA – else how will the colleges make money.
College days were fun, stress free and I made some life-long friends (whom we call Alumni) if nothing else and Yes I studied Marketing & Sales, we had some great, talented faculty some of the best minds imparting knowledge and wisdom for jobs and life in general. Dalmia's trained me at most to be a marketing director or at-least a product manager, unfortunately there was an economic slowdown (it happens to all batches – each year during recruitment) and the first offer letter a few of us got was clawed back and a few weeks later I got a job as an Assistant business manager in a dot com company (which means I was an assistant to the manager) seriously. I totally detested sales and that's the only job which is always in demand.

This was my **lesson#1** in management "Life is not Fair". At my office, I made some cool friends and got the liking of my CEO, since I used to DJ, I DJ-ed for our annual outstation company party and soon got offered some top accounts to manage and I started to enjoy my work to death. This was my **lesson# 2**: Your first job at any job is to get accepted by the key people – of course without being a slime. I left the job in 4-months to move to Dubai, in meantime I had built such a good reputation for Dalmia's that post me 3 more of my batchmates joined the firm (imagine the state of the economy then). **Lesson #3** Always leave on a good note and leave a good legacy just in case you have to go back.
My philosophy in life is to live life 100% and in Mumbai I was spending more time earning a living than living the living. So, Dubai – the land of opportunities was my next destination, the city welcomed me with open arms and I entered the Media industry since Dubai Media city was bubbling with action, jobs were in plenty with good incentives. **Lesson #4** Join a sector or industry which is in demand and you will have fun working there both professionally and socially.

I worked close to 13 years in Dubai enjoyed the adrenalin of the city and of course the proximity to Mumbai. I had various titles from Sr. Sales Executive, Marketing Manager, Strategic Business Unit Head, Regional Director at various firms including Belle Media, Hay Group, TEN Sports, Gulf News, Saudi Arabian Airlines. **Lesson #5** Title means nothing, your present job is a means of preparing you for your next job**.** During my long tenure in Dubai, I often interviewed and recruited executives and managers for my team, there were IIM candidates I have turned down and appointed a graduate because **Lesson#6** the attitude is more important than aptitude. I can teach the skill (job) if there is the will (right attitude), but I can't change a wrong attitude or lack of will to work.

Few years ago my wife and me moved to Canada with our 2 kids as we seek greater work-life balance, after running a digital media consultancy in Toronto for a year, I rejoined the corporate sector as a senior manager in digital and programmatic advertising at TORSTAR corporation.

In short as you begin your corporate life, your focus and metrics for success is unidimensional but as you mature and have a family and kid's success is multi-dimensional with work-life balance.

If you are still there and reading this, I quote Paulo Coelho: "when you want something, all the universe conspires in helping you to achieve it".

Neha Hariramani
MMS A
First Year

OPTIONS IS THE FUTURE

Options are becoming more and more popular each day. Far from being confined to the institutions and professional money managers, options trading is a worldwide phenomenon for retail traders of all walks of life. The concept of options is still, however treated with fear and trepidation. Proper knowledge, pre-planning, risk mitigation techniques, discipline and patience are some of the important criteria for being a successful options trader.

Options are a financial derivatives instrument, and is a contract between an option writer (seller) and an option buyer. Option writer writes (sells) an option contract in order to earn premium from the option buyer. Option buyer – has the right, but not the obligation – to buy or sell the underlying asset and the option writer has the obligation. They are instruments that derive value from underlying indices like Nifty and Bank Nifty, etc, and permitted stocks traded on the exchange – types: Call and Put options.

Call option: A call option is a contract between two parties to exchange a stock at a "strike price" by a predetermined date. One party, the buyer of the call option, has the right, but not an obligation, to buy the stock at the strike price by the future date, while the other party, the seller of the call, has the obligation to sell the stock to the buyer at the strike price if the buyer exercises the option.
Put option: A put option is a contract between two parties to exchange a stock at a "strike price", by a predetermined date. One party, the buyer of the put option, has the right, but not an obligation, to sell the stock at the strike price by the future date, while the other party, the seller of the put, has the obligation to buy the stock from the buyer at the strike price if the buyer exercises the option.

Let us understand options through an example:
Call Option: X wants to sell her house for Rs.10,00,000. Y is interested to buy the house, but is unable to arrange cash for 2 months. So, Y pays a token amount (Premium in case of options) of around Rs.10,000 to book the house. So, basically Y has bought a Call option, which gives Y the right to buy the house anytime within 3 months at Rs.10,00,000 and X is obliged to sell. There are 2 scenarios which can happen – after 3 months – the price of house can either go up or go down. Now, since Y has the option, he can either buy or not buy. If the price goes up, Y will buy the house at Rs.10,00,000 and sell it to earn profit – thus exercising the call option. If the price goes down, Y has the option of not buying the house, but he loses Rs.10,000.

Put Option: A farmer starts growing onion today and the market price of onions is Rs.100 per kg. He has made his calculations accordingly and taken a loan amount. The onions will be ready to be sold after 3 months. Now, there are two situations that can happen – either the market price of onions will go up or down after 3 months. If the price goes down, the farmer will have a great loss. So, to save himself from this loss, he will buy a Put option today, which ensures him that he can sell the onion at today's market price, even if the actual market price is down. To buy the Put option, he just needs to pay premium.

Description	Risk	Reward	Breakeven
Buy Call	Call premium	Unlimited	Strike price plus call premium paid
Sell Call	Unlimited	Limited to the call premium received	Strike price plus call premium paid
Buy Put	Put premium	Strike price less put premium paid	Strike price less put premium paid
Sell Put	Strike price less put premium received	Limited to the put premium received	Strike price less put premium paid

Why trade options?

The main reason for trading options is that for a small amount of investment, you can earn hefty profits. Options give the investor added flexibility, potentially much greater returns for a given movement in the stock price, and protection against risk.

1. Cost effective: Options are cost effective, as the initial outlay of money is much less compared to equity or futures (cash or margin payments), and is limited to just the premium payment. Retail investors can easily use options with the right knowledge to earn profits with minimum initial outlay.
2. Less Risk: The risk can be minimized by using options for hedging. Also, options are not affected by gap openings – which is the huge difference in closing price and the opening price the next day due to a news. Options are safer than futures on stocks and indices to the extent that losses are limited to the premium paid to the option sellers. But the risk is high as few investors are really aware of factors influencing an option's price.
3. Higher potential returns: The profit you earn on the initial outlay is much higher as compared to equity and futures as your investment is minimum. So, options can be a type of low-risk high-return investment opportunity using the right strategies.
4. Strategic Alternatives: Options are a very flexible instrument. It can be used even in bearish market to make a hefty profit, due to the availability of call and put options.

On the flip side, if options are used in the wrong way, trading in options without proper knowledge and strategies, can result in huge losses.

How is premium decided? There are multiple factors that influence the option's premium:

1. The type of option – "call" or "put".
2. The underlying asset and its own price.
3. The strike price.
4. Expiration date.
5. Volatility.
6. Risk-free rate of interest.
7. Dividends payable.

Price – Volume – Open Interest Analysis:

Price, volume and open interest are important determinants of trends in derivatives market, and can be used to trade options. Volume represents the amount of trading activity in a day. Open Interest tell us the number of outstanding contracts at the end of a day. Increase or decrease in volume shows increase or decrease in the trading activity, whereas increase or decrease in open interest shows an increase or decrease in cash flow in the market.

CASE 1: Long build-up – When the price is rising along with an increase in open interest and volume, there is an uptrend. This means there are a lot of new buyers buying long positions – buyers are aggressive. Money is coming in the market, and this is a sign of bullish market.

CASE 2: Long unwinding – When the price is falling with a decline in open interest, there is a downtrend and long positions holders are covering their position to limit the loss. Aggressive covering up of long positions causes the prices to fall further, but after all the contracts are closed, the prices will naturally rise. Hence, this is a sign of bullish market.

CASE 3: Short buildup – When the price is falling, with an increase in open interest, clearly the sellers are more aggressive. Money is leaving the market, and it is a sign of bearish market.

CASE 4: Short covering – When the price is rising, with a decrease in open interest, short position holders are squaring-off their position. This is a sign of rally in bearish market.

PRICE	OPEN INTEREST	VOLUME	MARKET TREND
Increase	Increase	Increase	Long Build-up
Decrease	Decrease	Decrease	Long unwinding
Decrease	Increase	Increase	Short Build-up
Increase	Decrease	Decrease	Short covering

In conclusion, option trading is an upcoming financial instrument in India, with huge untapped opportunity for retail investors. Benefits of options – lower capital requirement, the ability to use leverage, customizable strategies, using options as insurance – far outweigh the risks and downfalls, which can be easily mitigated by proper knowledge and usage of strategic planning.

Varun Bhandari
MMS A
First Year

TAX – GDP RATIO

Taxes are a form of levy imposed by the government on the tax payers i.e. individuals, business, government workers or is added to the cost of the goods in the form of indirect tax, services and transactions so as to fund various public expenditures initiated by the government for the welfare of the people. Taxes are the major source of revenue for the government.
Taxes are of two types

- Direct tax
- Indirect tax

To earn more and more revenue, the government sometimes increases the tax rates. But the higher the tax the higher would be the disadvantage for the economy. For example, the higher the tax rate the lesser will be disposal income and also the spending by the consumers in the economy which will lead to less demand of the goods and services and will ultimately lead to lower G.D.P. So it does not always mean that just by increasing the taxes the government would earn more revenue and would keep things in check.

On the other hand, if tax rate is low, it will lead to more disposable income in the hands of the common, which will lead to more demand of goods and services, so as to meet this demand companies will have to increase the supply of goods and services either by 100% utilization of the existing capacity or by introducing new capacities which will require more labor indirectly increasing employment rate. The overall effect would be the increase of G.D.P. But tax cuts can also prove to be atrocious for the country as it will slow the long run economic growth by increasing fiscal deficit.

What is G.D.P

Gross Domestic Product (G.D.P) is a monetary measure of market value of goods and services produced in a given period of time.

Tax-G.D. P ratio

Tax – G.D.P ratio shows the tax revenue for a country measured in terms of G.D.P. if tax to G.D.P ratio is 20% then it means the government gets 20% of the G.D.P from its tax collection. So if the G.D.P of the country increases so should the tax revenue.

For example If the G.D.P of a country is 9 trillion$ and the tax revenue is 2 trillion$ then the ratio would 22.22% (2/9*100).
If the G.D.P is 15 trillion$ and the tax revenue is 3trillion$ then the ratio would be 30 % (3/15*100).
In the last fiscal year 2017-18 India achieved Tax –G.D.P ratio of 5.98% which was the highest in last 10 years. It has constantly increased from last 3 years. In 2016-17 it was 5.57%, In 2015-16 it was 5.47%, In 2014-15 it was 5.55%.

THE NET WIDENS

	2017-18	2016-17	2015-16	2014-15*
Direct Tax-GDP ratio	5.98%	5.57%	5.47%	5.55%
Taxpayers showing gross total income above Rs 1 crore**				
All taxpayers	1,40,139	1,20,103	1,08,333	88,649
Individuals	81,344	67,783	59,830	48,416
Companies	39,753	36,179	33,705	28,367

*Financial year; **Assessment year*

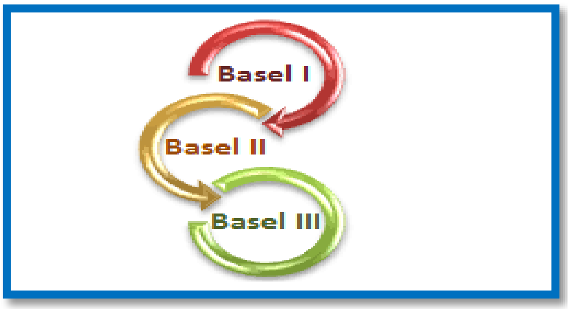
Reasons for increase in Tax to G.D.P ratio

1. Demonetization.
2. GST.
3. Increase in compliance by the Government agencies and Tax department.
4. Growth in IT returns filings.

Impact of better Tax to G.D.P. ratio

If there is better collection of taxes by the government they can use it in various projects relating to infrastructure, recapitalization of PSU'S , providing affordable housing, roads, railways , ports, airports which in turn would help ease of doing business in the country. They can also increase the expenditure on education, health etc. Higher tax to G.D.P ratio will allow government to not go in for disinvestment process and will also keep the fiscal deficit in check.

Riddhi Gandhi
PGDM D
First Year



ALL ABOUT BASEL

INTRODUCTION

The failure of Bankhaus Herstatt in West Germany along with serious disturbances in international currency and banking markets led to the formation of the Committee on Banking Regulations and Supervisory Practices in the year 1974. The committee was formed by central banks Governors of ten countries (G10) but now has extended its membership to 45 institutions. The committee is now known as the Basel committee and is located at the Bank for International Settlements in Basel (BIS) in Basel, Switzerland.

The committee was set up with the objective of enhancing financial stability by improving the quality of banking supervision worldwide. It also serves as a forum for regular cooperation between its member countries. The committee has established a series of international standards for bank regulations known as Basel Accords. They are global norms set to maintain common standards for banks across the countries. The norms are set with the objective of making banking sector strong enough such that it can withstand economic and financial stress, reduce risk in the system and improve transparency in banks. Basel Accords include Basel I, II and Basel III which provide recommendations to banks in regards to how to tackle Market Risk, Capital Risk and Operational Risk.

BASEL I: THE BASEL CAPITAL ACCORD

The first accord, known as Basel I was formed in the year 1988. It published a set of minimum capital requirements for banks and was focused mainly on credit risk i.e. default risk. Basel I defined capital requirements and structure of risk weights for Banks. Under Basel I norms, assets of banks were categorized into five risk categories- 0%, 10%, 20%, 50% and 100%. Banks that have international presence are required to hold capital equal to 8% of their risk weighted assets. But Basel I had some limitations as it did not take into consideration other risks such as market risk, liquidity risk and operational risks.

BASEL II: THE NEW CAPITAL FRAMEWORK

In order to overcome the limitations of Basel I, Basel II was introduced in the year 2004. There are three pillars of Basel II:

1. Minimum Capital Requirements
2. Regulatory Supervision
3. Market Discipline

Under capital requirements, banks were required to maintain a minimum capital equal to 8% of risk assets. Under 2nd pillar i.e. regulatory supervision, banks had to develop and use better risk management techniques in monitoring and managing all the types of risks included in banking sector. In order to help the user of financial statements, a set of full disclosure requirements was designed under the 3rd pillar. The disclosures were required to made at least twice in a year.

BASEL III: RESPONDING TO THE 2007-09 FINANCIAL CRISIS

It is said that the loopholes in the norms of the Basel II is what led to financial crisis in the year 2008. The banking sector had entered the financial crisis because of inadequate liquidity buffers. To ensure that banks don't take on excessive debt and also that they do not rely on short term funds, BASEL III norms were passed in the year 2010. The main aim of BASEL III norms was to increase bank liquidity and decrease bank leverage. The three pillar established in BASEL II are further revised and improved in BASEL III with few additional requirements.

Source: Moody's (2012)

1. **CAPITAL REQUIREMENTS**

   Capital buffers were introduced in BASEL III norms in order to strengthen the capital requirements.

   - **Capital Conservation Buffer-** Banks are now required to hold an additional Capital Conservation Buffer equal to 2.5% of risk-weighted assets. This was done to ensure that banks can absorb losses during the period of financial and economic stress.
   - **Counter Cyclical Buffer**- is a buffer within a range of 0% to 2.5% of common equity or other fully absorbing capital. This buffer is implemented according to the national circumstances.
   - **Minimum Common Equity**- Common equity is the highest form of loss-absorbing capital. Minimum requirement of common equity has been raised to 4.5% from 2% of total risk-weighted assets.
   - **Minimum Total Capital Ratio**- Minimum total capital ratio is constant at 8% but when Capital Conservation Buffer is added, the minimum requirement reached up to 10.5% of risk weighted assets. Out of the 10.5% requirement, 8.5% must be met through tier I capital (common equity and other highly liquid instruments) and remaining 2% is met through tier II capital (Bonds and less liquid instruments).

2. **LEVERAGE RATIO**

   Minimum Leverage Ratio was introduced in BASEL III. Leverage Ratio is calculated by dividing Tier 1 capital by the average total assets of the banks. Banks are required to maintain at least 3% of leverage ratio.

3. **LIQUIDITY REQUIREMENTS**

   Two new liquidity ratios were introduced:

   - **Liquidity Coverage Ratio (LCR)**- was introduced to ensure that sufficient funds are available for 30 days' survival in a severe stress period.
   - **Net Stable Funding Ratio (NSFR)**- was introduced to make sure that there are no maturity mismatches over the entire balance sheet.

IMPLEMENTATION OF BASEL III

The norms under BASEL III were finalized in September 2010 but there have been many reforms for the same. They can be seen in the chart below:

Annex 2: Phase-in arrangements (shading indicates transition periods)
(all dates are as of 1 January)

	2011	2012	2013	2014	2015	2016	2017	2018	As of 1 January 2019
Leverage Ratio	Supervisory monitoring		Parallel run 1 Jan 2013 – 1 Jan 2017 Disclosure starts 1 Jan 2015					Migration to Pillar 1	
Minimum Common Equity Capital Ratio			3.5%	4.0%	4.5%	4.5%	4.5%	4.5%	4.5%
Capital Conservation Buffer						0.625%	1.25%	1.875%	2.50%
Minimum common equity plus capital conservation buffer			3.5%	4.0%	4.5%	5.125%	5.75%	6.375%	7.0%
Phase-in of deductions from CET1 (including amounts exceeding the limit for DTAs, MSRs and financials)				20%	40%	60%	80%	100%	100%
Minimum Tier 1 Capital			4.5%	5.5%	6.0%	6.0%	6.0%	6.0%	6.0%
Minimum Total Capital			8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%
Minimum Total Capital plus conservation buffer			8.0%	8.0%	8.0%	8.625%	9.25%	9.875%	10.5%
Capital instruments that no longer qualify as non-core Tier 1 capital or Tier 2 capital			Phased out over 10 year horizon beginning 2013						
Liquidity coverage ratio	Observation period begins				Introduce minimum standard				
Net stable funding ratio		Observation period begins						Introduce minimum standard	

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Most of the reforms have been phased out from 2013 to 2018. According to Bank for International Settlements, there will be assessments of other relevant standards as well and required changes would be made.

Sarthak Srivastava
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First Year

SIGNING OFF 2018 – INDIAN EQUITY MARKET PERFORMANCE

The year 2017 noted some significant returns after a couple of years with nearly flat returns. So, continuing with the excitement from 2017, the 2018 calendar year started with buoyancy, as the S&P BSE SENSEX reached more frequent lifetime highs through the end of January 2018. However, it failed to sustain these highs, as immediately after the budget was passed, the S&P BSE SENSEX and all other leading indices experienced a sharp decline. As of Dec. 13, 2018, the S&P BSE SENSEX gained approximately 1,872 points year-to-date (YTD), up 6.8% in terms of total returns.

Exhibit 1: YTD S&P BSE SENSEX Performance

Source: Asia Index Private Limited. Data from Dec. 29, 2017, to Dec. 13, 2018. Index performance based on total return in INR.

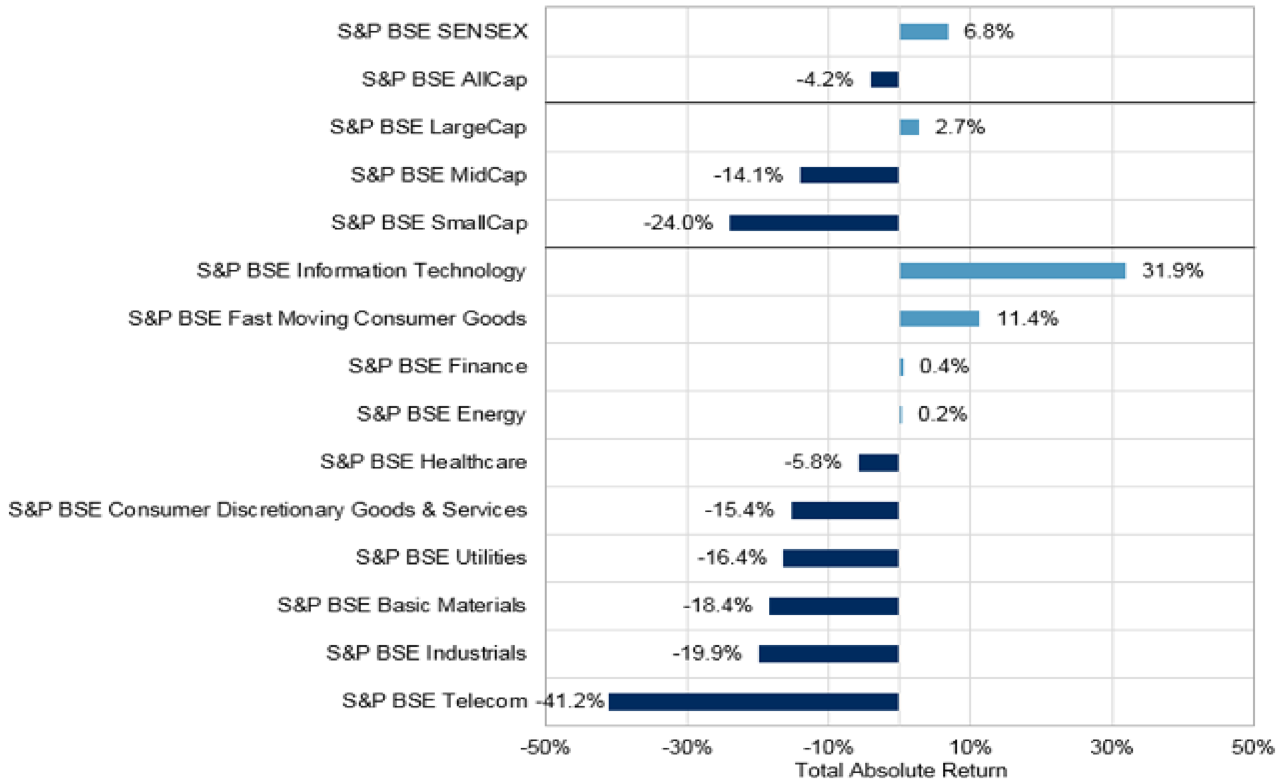
After witnessing the least volatility during the year 2017 (with an annualized volatility of 8.9%), the Indian market has seen an uptick in volatility during 2018, with an annualized volatility of 12.5%. On the global front, higher crude oil prices, the U.S.-China trade war, and global monetary tightening were the three top drivers of volatility. On the domestic side, factors such as the introduction of the long-term capital gains tax (LTCG) on equity, perceived overall higher valuations of Indian equities, increasing interest rates, concern over falling GDP, mounting Current Account Deficit (CAD), bank frauds and lately, the non-banking financial company (NBFC) liquidity crisis kept the markets turbulent throughout the year.

The S&P BSE AllCap, which covers more than 95% of India's listed equities in terms of total market capitalization, declined by 4.2%. The decline in the S&P BSE MidCap (-14.1%) and S&P BSE SmallCap (-24.0%), with the simultaneous positive returns for the S&P BSE SENSEX (6.8%) and S&P BSE LargeCap (2.7%), could be a result of a shift in focus of investors from mid-cap and small-cap stocks to relatively safer bets in large or mega cap stocks, the new safe havens for the investors.

On the sectoral front, the S&P BSE Information Technology and S&P BSE Fast Moving Consumer Goods recorded gains of 31.9% and 11.4%, respectively. The revival in demand and sharp depreciation of the Indian rupee helped the IT sector, whereas the FMCG stocks noted positive total returns, reflecting India's consumption scenario.

Meanwhile, the S&P BSE Finance and S&P BSE Energy ended flat. The S&P BSE Telecom was the worst-performing sector index, with a total return of (- 41.2%) not surprising, given that most telecommunication services companies tend to be highly leveraged and are facing a potentially intense price war.

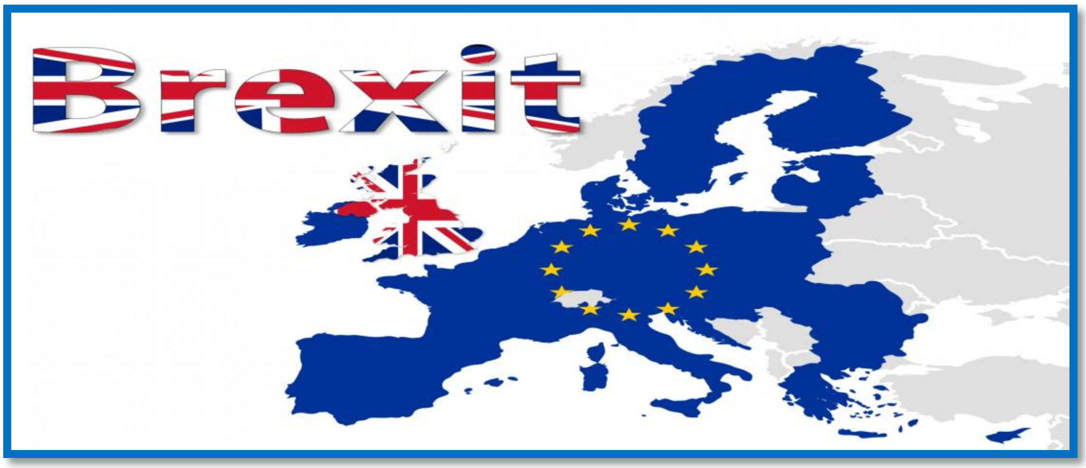
Exhibit 2: Sector and Size Wise YTD Total Absolute Returns



Source: Asia Index Private Limited. Data from Dec. 29, 2017, to Dec. 13, 2018. Index performance based on total return in INR.

Outlook: With the U.S.-China trade war not cooling off anytime soon, the IMF's recent revision of the global GDP growth estimate to 3.7% in 2018 from 3.9%, and the downward trend in India's GDP growth, the Indian equity market is expected to remain volatile in the near future. Market participants may also be interested in seeing how the government of India will respond to the recent losses in state elections, and how this may affect voter confidence in the upcoming general elections in 2019.

Parul Sodhani
MMS A
First Year



EFFECT OF BREXIT ON GLOBAL ECONOMY

What do we mean by Brexit?
Brexit is an abbreviation for "British exit," in reference to the UK's decision in a June 23, 2016 referendum to leave the European Union (EU). The result of vote was beyond expectations which caused mayhem in the global markets. As a result, the British economy witnessed pound falling to its lowest against the price of dollar in 30 years. The process of leaving the EU formally began on March 29, 2017, when May triggered Article 50 of the Lisbon Treaty, which is a clause in the European Union's (EU) Lisbon Treaty that cites the steps to be taken by a country seeking to leave the organization voluntarily. Invoking Article 50 kick-starts the formal exit process and serves as a way for countries to officially declare their intention to leave the EU.

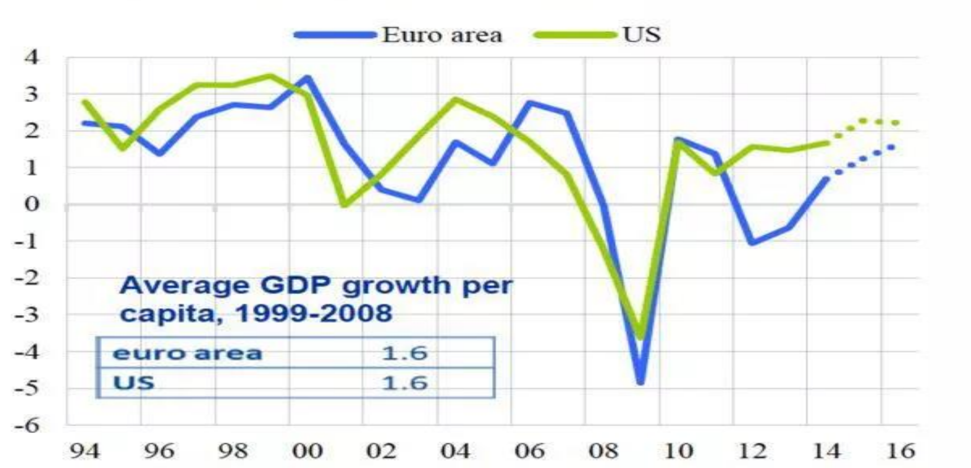
What are the key factors leading to Brexit?

1. Dysfunctionality
   Those who favoured Brexit, strongly put forth that European Union is a dysfunctional entity. It paid little or no attention to the rising economic problems which had been culminating since 2008. For instance, the 20% unemployment in Southern Europe. Also, the European Union failed to form financial relationships which caused a crunch in the economy. Thus, staying in a stagnant and non-progressive organization which failed to address British problems made no sense in the long run as per the opponents.

2. Sovereignty
   Due to increase in distrust of multinational finance, trade and defence organizations created after World War 2, there is a rising sense of nationalism all across UK. The EU, the IMF, and NATO are good examples of this. The opposers of EU are of the view that such institutions are no longer required. As a result, there has been a strict control on the operations of these individual nations by these organizations. This has inculcated a sense of mistrust and fear of losing control among the individual nations, which made Brexit a reasonable option to them.

3. <u>The collapse of Euro</u>
As the Lehman Brothers Bank took a downward hit, the economy of US suffered. Dollar depreciated but the Eurozone was equally bad. The Euro further took a greater hit than USD, and later quickly went into a recession instead of experiencing a continued recovery. Central banks are supposed to react to recessions by expanding the money supply in order to promote economic activity. The 2008 subprime crisis caught most of the central banks flat footed in US as well as Europe. But America's central bank, the Federal Reserve, ultimately responded forcefully to the economic downturn, helping to get the economy growing again starting in 2010.

Figure 1: GDP per capita growth comparison



Source: Spring 2015 European Commission forecast

As opposite to that, the ECB increased its interest rates by adopting a contractionary policy in 2011. This lead to the recovery of US economy but buried the Euro into a double-dip recession. Even though it did not affect UK directly as UK uses Pound and not Euro, but the fluctuation of Euro to such an extent made the British wary of European Union Membership.

What are the consequences of Brexit on the economy of UK?

- The developing plan does not allow the U.K. to restrict the free flow of people from the EU. This was one of the underlying factors for people to vote for Brexit.
- There was uneasiness about a rise in refugees from the Middle Eastern countries and Africa.
- Brexit's biggest disadvantage is that it's slowing the U.K.'s economic growth.
- Most of this has been due to the uncertainty surrounding the final outcome. Uncertainty over Brexit has slowed the U.K.'s growth to 1.3 percent in 2018.
- It has been reported that UK’s growth would slow down to 1.9 percent in 2019 and 1.6 percent in 2020.
- The British pound is 14 percent lower than before the referendum. This is helpful in exports but increases the prices of imports. This will strengthen the pound once the deal is approved.
- The Bank of England warned in its report that a disorderly Brexit would result in the UK economy to shrink by 8%. The value of the pound would fall by as much as 25% and home prices could slump upto 30%.
- A messy Brexit would hit some of the main factors of the economy hard. As per the official estimates, the chemical, auto and pharma industries, which are heavily involved in its trade with the European Union, would be over 20% smaller in the long run.

How is the world economy affected from Brexit?

The markets as well as the controllers of economy were caught off guard by the U.K.'s vote to leave the European Union. The immediate reaction in the financial markets was swift and violent owing to the surprise. Financial markets will definitely calm somewhat after a period of shock and awe but will find themselves settling into an entirely new sector of macroeconomic and geopolitical uncertainty.

- There is increased pressure on China to float the yuan at a lower rate, with higher U.S Dollar, as it has been propelled in the divergence between two of its largest exporters—the EU and the U.S.
- The separation of EU and Britain will pluck away the capital of the country as the investors will look for more stable markets which might include US and Japan, the haven of deposit for treasuries.
- It will further help reduce the interest rates in the global market and in tandem raise relative currency values.
- However, higher value rise of US Dollar and Japanese Yen are equally adverse for the development of both economies' export sectors. Especially, for Japan it is unfruitful since it negates the years of its efforts to reinflate and regenerate the economy after decades of deflation.
- The negative impact on exports for USA is quite less as compared to trends in domestic demand. The deflationary pressure existing in tradable goods will increase the divergence between reasonably strong deflations in the goods industry vs. reasonably strong inflation in the services sector.
- The European Central Bank will be forced to raise its level of intervention yet again, as risk premiums throughout the area will increase. Italy is in a particularly vulnerable position, among all the larger Eurozone members. Each setback to members of the Eurozone periphery also further make Germany's outperformance more unsustainable in the Eurozone.
- There is a negative pressure on growth rates faced by China ahead. The bulk of deceleration pressures are intrinsically of domestic origin. However, the likely need to counterbalance an uneven global environment will further decelerate the development towards newer, slower but stronger economic model. The inward turn of the Chinese economy that we anticipated in our base case scenario may be facilitated or accelerated by similar inward turns implied by the emerging political and social climate in other parts of the world.

Jayraj Shekhawat
MMS B
First Year

BANKING TRENDS TO WATCH OUT FOR IN 2019

The evolving RBI-government relationship, a reversal in the interest rate cycle and return to profitability will dominate banker's conversation this year. The latest Financial Stability Report of the RBI, a bi-annual health check-up for the entire banking system, should be music to the ears of the CEO's of banks and the investors in bank stocks.

The proverbial light at the end of the tunnel is finally, in sight. The pile of bad assets, under which a few public sector banks (PSB's) have almost got buried, has started showing signs of erosion. As a percentage of the overall loan book of the Indian banking industry, the bad loans in September 2018 (10.8%) declined from the March 2018 level (11.5%). The RBI expects it to come down further in March 2019 (10.3%), signalling that the Indian banking system is on course to recovery. Banks are also setting aside more money to provide for their bad assets, improving the provision coverage ratio, adding the resilience of the system. This will gain momentum and be the most significant trend in Indian banking in 2019.

Banks won't have to set aside as much money as they had been doing for bad assets in the past few years. Coupled with the aggressive recovery drive, this will add to their profitability. How? For a particular bad loan, if a bank has made, say 80% provision, even if it recovers 25%, it is "IN THE MONEY" as anything beyond 20% adds to its bottom line. More banks are expected to make profits this year and the relatively strong banks that have gone through a rough patch in the past few quarters, such as State Bank of India and Bank of Baroda, could bounce back firmly on the growth path. 12 of the 21 PSB's were in losses in September 2018. Since December 2015, when the bad loans of the banking system started rising, following RBI's first-of-its-kind asset quality review, the government owned banks recorded Rs.1.84 trillion losses. Another popular theme will be the bleeding hearts of farmers' distress. Describing the farm loan waiver by the Congress governments in 3 states as "political stunts" and "lollipops", Prime Minister Narendra Modi has promised to tackle the fundamental problems. The form may change but competitive populism is a reality in the world's largest democracy. Time to wait and watch.

Anurag Sharma
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RBI vs the GOVERNMENT

Disagreements and differences between the centre and the RBI is not new as it has been a tradition for many decades now.

Few instances when the centre and the RBI locked horns are stated below,

Year	Government/Finance minister and the Governor	Topic of Dispute
2004-08	P Chidambaram vs YV Reddy	Tax on foreign institutional investors, Interest Rates, FDI in private banks
2008-12	P Chidambaram vs D Subbarao	Setting up of Financial stability and development council , Interest Rates
2014-16	BJP Gov vs Raghuram Rajan	Interest Rates, Speaking on issues beyond its remit

History speaking for itself tells us that the centre and the RBI has always been under conflict, then what makes the issue so distinctive?

The relation between the RBI and the Government is like the relation of the Countries India and China, always having tension on the border but are highly dependent in the economic perspective.

As cited by our former Prime Minister Manmohan Singh that the relation between the RBI and the Government turned sour in 2018, leading to unprecedented episodes that eventually led to abrupt resignation of Urjit Patel as the governor.

Few of the differences between the Centre and the RBI are over easing of lending restrictions for certain sectors, the appropriate size of reserves to be maintained by the central bank, the section 7 issue and many more but the main problem being the spilling out of the sensitive information in public which affects the confidence in the market. It was further aggravated when deputy governor Viral Acharya spoke of maintaining autonomy and independence of the central bank. The autonomy of the central bank is under duress not for the first time as the former RBI governor Mr. Y. V. Reddy pointed out that after he became the governor, people asked whether he was independent and whether the RBI was autonomous institution. "I replied saying, 'Yes, I am an independent and the RBI is an autonomous institution. This, I am saying after getting permission from the Finance Minister."

Let’s highlight some of the key factors causing this turmoil.

Consensus on a Dividend Policy

This is one of the factors that perhaps the RBI should have been more cautious about and should not have surprised the government by slashing the dividend to less than half of what was expected from the budgeted Rs 66,000 crore to Rs 30,000 crore last year. After the resigning of the now former RBI governor Mr. Urjit Patel, The Reserve Bank of India (RBI), have changed management and appointed the former finance ministry official Shaktikanta Das as the new governor of the RBI. The government and RBI have now appointed a panel to look into the issue around the sharing of the RBI's reserves and are likely to transfer an interim dividend of up to Rs 30,000 crore to Rs 40,000 crore ($4.32 billion-$5.8 billion) to the government by March. One of the sources told Reuters. "We are absolutely sure that an interim dividend of more than Rs 30,000 crore would be paid before March end," With the finance minister about to present the government’s budget in Feb 1 the RBI could make a final decision on the dividend.

Regulation of Public Sector Banks (PSBs)

Here the RBI has got a strong case. Most of the Defaults is in the Public Sector Banks(PSBs), which are controlled by the government, with only a few nominees of the RBI getting a place in the boards and committees. With the high profile scams like Nirav Modi and Mehul Choksi - Punjab national bank case and the loss incurred by the government due to the Non-Performing assets (NPAs), Government blames the RBI for not having strong enough policies to prevent such frauds while the RBI argues that they don’t have control on the daily functioning of the banks and can supervise only to a certain extent.

Diluting the Prompt Corrective Action (PCA) framework

PCA framework is the set of rules applied by the central bank on the weaker banks having a serious structural problems and have a large amount of NPAs which restricts them to provide further loans. This is a vicious cycle as the Centre says that if the weaker banks are allowed to lend again, it could boost credit growth in the Indian economy while the RBI is firm that if the Centre wants state-owned banks to exit the PCA it needs to infuse more capital, which is the government reluctant to do so. The 80% of the total NPAs constitute of the Public Sector Banks (PSBs) and as 11 state-owned lenders are under restrictions placed by the PCA framework which upsets the government as a large amount of capital that could be used in the economy as well as help to improve liquidity is at a standstill with the PSBs.

RBI’s Reserves

The total reserves with the RBI stand at Rs 9.6 lakh crore, up from Rs 8.38 lakh crore in the financial year 2017 which the government believes that the RBI is more than adequately capitalised and should pass on the surplus to the government. The total reserves of the RBI as percentage of its assets stand at 26.5% up from 25.4% in FY17 which when compared to the global median which stands at 16% is very high but the RBI believes that low capital will force central bank to turn to government in time of need. This will give government influence over the central bank.

Governors past and present have exchanged words and more with the government of the day to protect their turf and will probably continue to do so in the future too. What remains to be seen is with the resigning of Urjit Patel on December 10th, the government very next day, appointed former Economic Affairs Secretary Shaktikanta Das as the 25th Governor of the RBI. This time government preferred a bureaucrat over an economist after tryst with two economists as head of the central bank. As Shaktikanta Das is considered an efficient implementer and a team player. The Governor as well as the government could have surely handled this better and should do better in managing their relationships and work towards solving the myriad economic issues the country currently faces.

Udayan Arya
MMS B
First Year

THE FISCAL MATH

The Finance minister of India in the 2018 budget set a fiscal deficit target of 3.3% of the GDP. This amounts to ₹6.24 trillion. Having breached the target in the month of October, the fiscal deficit for the period April –November stands at ₹7.17 trillion exceeding the target by 15 percent. This raises concerns about fiscal slippage and that the target set for FY19 could widen more.

The Government expenditure up to November was 66.1 of the budget estimate of ₹24.42 trillion suggesting that while the expenditure was largely on course, it was the revenue, especially from the Goods and Services tax that was short on its target. The GST collections of November stood at ₹976 billion which is well below the monthly target of ₹1 trillion. Analysts forecast a shortfall of ₹700 billion to ₹1 trillion in the overall GST collections for the FY 2018-19. However, the Central Government officials argue that disinvestments, increase in direct tax collections and the surplus from the compensation cess would offset the GST shortfall and help the government stick to its fiscal deficit target.

The direct tax collection estimate for the FY 2018-19 is ₹11.5 lakh crore. For the period April-November this year, the net direct tax collection is close to ₹5.5 lakh crore which is 14.5 percent higher than last year and also accounts for 48% of the annual target. Sources in the Finance ministry expect the direct tax collections to exceed the target by at least ₹150 billion. The increase in direct tax collection is thus crucial for the government to maintain the fiscal deficit within 3.3% of the GDP.

The GST compensation cess is a cess that is levied in addition to the regular GST taxes on certain notified goods. The cess is levied to compensate the states who may suffer losses due to the implementation of GST. Thus the states which reflect a revenue growth of less than the estimated 14% each year on the base year 2015-16, are compensated from this kitty. The government estimates that by the end of the FY 2018-19, the kitty would have a surplus of around ₹402.8 billion and plans to take over 50% of this sum that is about ₹200 billion to help cut the fiscal deficit.

The government lay down a disinvestment target of ₹800 billion for the FY 2018-19. The target was a cause of concern for the government after it failed to privatise Air India earlier this year but has now come up with plans to bring IPO's of companies such as Mazgaon Docks, rail companies like RVNL and IRFC and MSTC. The government has also urged public sector units to buy back shares which could ultimately get the government anywhere around ₹120 billion to ₹150 billion. The government is also trying to push through the acquisition of its stake in SJVN by NTPC which is valued at ₹70 billion. Ultimately the government is confident of exceeding the disinvestment target of ₹800 billion.

The government further is keen on tapping the RBI's excess reserves and has also demanded an interim dividend from RBI. The move is aimed at maintaining the fiscal deficit. The RBI follows the July-June calendar and had paid the government ₹500 billion as dividend for the July 2017-June 2018 period, of which ₹100 billion was transferred on March 27, a few days before the financial year 2017-18 ended, thus helping the government reduce the fiscal deficit for that particular year. Government officials are demanding roughly the same amount as an interim dividend for this year also and are hopeful of securing the dividend before March 31, 2018.

The central government has announced GST cuts on several product categories and said that barring 28 items, all other products would be brought under a goods and services tax rate of 18% or lower. This move will hurt the annual revenue by ₹5500 crores which amounts to less than 0.5% of the year's target for GST collections. Though not a significant amount, the impact could play a role in determining the deficit.

The Parliament of India has approved for ₹410 billion capital infusion in the public sector banks. This is apart from the ₹650 billion that the government had budgeted for, in the current year. This is aimed at reducing the liquidity crunch in the economy and also to help PSB's move out from the RBI's Prompt Corrective Action (PCA) framework and get back to lending ways. While the government is keen to boost the economy, this sought of measure could well be responsible for widening the fiscal deficit.

The government could finally cut expenditure to reduce the deficit but 2019 being an election year, it is highly unlikely that the government would do so. According to analysts, the government could see additional expenditure of more than ₹450 billion over and above the budgeted spending estimates of ₹24.4 trillion. This could include higher oil subsidies, newly announced minimum support price obligations for cereals and pulses and increased outlay for schemes like Ayushman Bharat. Though the government is confident of meeting its fiscal deficit target, only the upcoming days will provide a clearer picture.

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IL&FS ISSUE

When we hear the word **Economy**, we usually relate the government activities to the development of country through various projects. Now where does the government raise funds to meet the demands of the projects? Government basically issues Bonds, government securities or non-financial schemes like Vikas Yojana, Provident Fund, etc.

But when we are talking about money, we cannot forget the regulatory body governing it, i.e. **RBI- Reserve Bank of India**. RBI has the authority to infuse money in the economy or market, when we face Liquidity Crunch or can control the excess money supply by increasing the interest rates.

RBI in 1987 established the **Infrastructure Leasing and Financing Services (IL&FS)**, as a core investment body, whose main objective is to lend money to the infrastructure related projects and gain from the interest it receives along with it.

The major stakeholders in IL&FS are **LIC** (25.3%), **ORIX** (23%), **Abu Dhabi Investment Authority** (12%), **SBI** (6.4%) and few others. It has several projects in different sectors including Transportation, Area Development, e-Governance, Health Initiatives, Cluster Development, Finance, Power, Education and tourism. **Chenani - Nashri Tunnel** located on the route NH 44 in Jammu and Kashmir was majorly funded by IL&FS.

IL&FS cannot be called a bank, as it does not hold the saving and current account of the borrowers. Its main objective is to just lend money. Hence such companies are called **Non-Banking Financial Company (NBFC)**. To lend such a huge amount, where does IL&FS get the money?

BUSINESS MODEL

Main objective of NBFCs or IL&FS is to lend borrowers (infrastructure projects) for **long term.**

Now there are two ways through which it can raise funds:

1. Borrow from Banks
2. Raise capital through the money market instruments, mainly **Commercial Papers**, Certificates of Deposits or through the issue of Bonds, non-convertible Debentures, mortgages and leases.

IL&FS mainly focuses on the issue of Commercial Papers, wherein the company issues the paper whose validity ranges from 7 days to 1 year, and CP is basically a promissory note, where the lender, depending upon the credibility of the borrower (company), enters into a contract and lends money at a fixed interest rate (greater than FDs). This is how it raises funds.

In a nutshell, IL&FS raises funds through **short term instruments** and lends money for long term purpose. Hence we can say the Debtors are the assets of the company as they are going to repay the loan along with the interest, a part of which is kept by the company, and the rest is used to repay the short term debt.

The major drawback of this business model is, infrastructure projects take a long time to complete, which means, the time it will receive its money back is not guaranteed, and because it has borrowed money which is short term in nature, it has to be repaid back soon. Any delay from the former side would increase the chances of default.

HOW DID THE ISSUE UNFOLD ITSELF?

The infrastructure lender had a total consolidated debt of about **Rs. 1 Lakh Crores** and it started to miss deadlines on its debt obligations beginning **August 27,2018**. It had also defaulted on **Rs. 450 Crores** worth of inter- corporate deposits to Small Industries Development Bank of India (SIDBI).

When IL&FS started to default because it could not receive its money from the projects, Credit rating Agencies like ICRA, CARE, CRISIL abruptly downgraded IL&FS and its subsidiaries from high investment grade AA+ to **Default**.

This downgrading caused a lot of problem for the IL&FS, as it stopped receiving money from Banks and investors were cautious to invest in the company. This brought in even more liquidity crisis for IL&FS. Because IL&FS defaulted in its payments, it impacted the whole NBFC sector and the confidence of the investors began to shake.

This fear of default, by the IL&FS, impacted the share market as well, and shareholders to lower their risk in investments, started to sell the shares, Mutual Funds retracted their investments, which further downgraded the position of the company. The whole market was facing an issue of liquidity.

HOW RBI INTERVENED?

Since RBI had understood that the problem IL&FS was facing, was of Liquidity. RBI infused **RS. 36000 crores** via **OPEN MARKET OPERATIONS.**

Open Market Operation is the buying and selling of government securities by RBI. When the market faces a liquidity crunch, it buys government securities and infuses money in the market. And when there is excess supply of money, it sells the government securities.

REMARK:

With analysts calling the IL&FS a **scam** and had listed it as a defaulter, one cannot say this was a Scam, just like the **Lehman Brothers Scam (September 15, 2008)**. Because Lehman brothers had very little asset of their own and they used these assets as underlying assets and issued derivatives and again using these derivative instruments, they build other instruments and raised funds. But IL&FS has over 250+ subsidiaries, which includes IL&FS Transportation Networks Ltd., IL&FS Engineering and Construction Co. Ltd and IL&FS Financial Services, who have enough profit making projects lined up and it has a good asset base. Because one of its subsidiaries incurred huge losses, IL&FS suffered with the liquidity crunch. The solvency of the company is not questionable because the projects it overtakes are profitable.

Thus one can say, because of the business model IL&FS followed, company piled up too much debt to be paid back in short term while revenues from its assets were skewed towards the longer term.

ECONOMICAL INSIGHT:

Consider a situation: **Supply of Money remaining the same, when there is an increase in the demand for money,**

To curb the situation, **RBI usually increases the rate of interest so that the demand for money reduces.**

This can be related to the IL&FS Crisis, when IL&FS started to default in their payments, banks took a step back in lending them the money. Hence to repay the debts, IL&FS demanded for more money. This increase in the demand for money increased the rate of interest at which the Commercials Papers were issued because the investors were not ready to invest in the CPs, and the only way to attract them was to increase the rate of interest. Hence we can see the economic factors do play a major role in the financial market.

Raushni Bose
PGDM Finance
First Year

Behavioral biases in investment decision making and how to overcome them

Every one of us have biases. We make judgments about people, opportunities, and, of course, the markets. When it comes to money matters, humans are not exactly known to be rational. When we make decisions influenced more by our own emotional and behavioral biases, we put our observations through a number of filters manufactured by our experiences. These biases are detrimental and lead us to make poor choices in investment decision making.

Behavioral finance biases are broadly classified into two main categories
a)Cognitive biases   b)Emotional biases

Let us discuss some common cognitive & emotional biases in investment decision making.

*A **cognitive bias** is an error in cognition that arises when a person's line of reasoning when making a decision is flawed because of their own personal beliefs. It is more like a rule of thumb which may or may not be factual. Following are some types of cognitive biases.*

1) Confirmation Bias :
Confirmation bias is where people seek information that affirms existing beliefs while discounting or discarding information that might contradict them Have you noticed that you put more weight into the opinions of those people who agree with you? Investors do this too. How often have you analyzed a stock and later researched reports that supported your thesis instead of seeking out information that may poke holes in your opinion?
How to overcome :
When everything is confirming your market view , think again. Even though this a tough bias to overcome, but actively seeking out contradictory information or contrarian opinions can help to eliminate it.

2) Bandwagon Bias :

We often look to others for affirmation and acceptance thus allowing them to influence our judgement. Bandwagon bias is the tendency to believe things just because many other people believe the same. No one wants to get left out, but being the last one to pile onto an opportunity can also be cataclysmic. But as Buffett has proven, an opposite mentality, after exhaustive research, may prove more profitable.

How to overcome :

Something is not true simply because everyone seems to say so. Consider all your options thoroughly and ensure that your judgement is not based solely based on what others are doing.

3) Anchoring Bias:

It is the tendency to rely too much on pre-existing information when making decisions. As an example, if someone were to ask you to predict how a particular stock would be in the next three months , you would first check where the stock stands today, i.e. make an anchor of the price today and then make an assumption for the next three months.

How to overcome :

Do analyze historical data but do not hold on to historical conclusions.

4) Recency Bias :

Recency bias is a tendency that convinces us that recent information is more valuable than older information. For example, we tend to base our market expectations on how the market has been performing recently whether good or bad. Similarly, if you heard that a CEO is resigning from a company you own shares of, your impulse may be to overvalue this recent news and sell the stock. However, you should be careful, and instead focus on long-term trends and experience to come up with a more measured course of action.

How to overcome :

Learn from your personal trading experiences over a long period instead of relying on a recent experience.

*An **emotional bias** stems from impulse or intuition; emotional biases tend to result from reasoning influenced by feelings. Emotional biases are harder to correct for because they are based on feelings, which can be difficult to change.*

1) Loss Aversion Bias:

No one wants to lose money, but small losses happen all the time even for the best investors – especially on paper. Loss aversion bias is a tendency to dislike losing a lot more than enjoying winning.. Investors that are focused only on avoiding losses will miss out on big opportunities for gains. Sometimes we make decisions based upon the fear of loss so as to avert its occurrence instead of considering the benefit of potential gain.

How to overcome :

Accept the fact losses are an inevitable part in trading and make sure your plans have some wiggle room.

2) Endowment Bias:

Similar to loss aversion bias, this is the idea that what we do own is more valuable than what we do not. Other stock in its sector may show more signs of health, but the investor won't sell because he/she still believes, as before, it's the best in its sector.

How to overcome :

For people under the impact of the endowment effect, it's good to ask the question whether you'd invest in this security again or whether you'd do something else if you had inherited, say cash. You can also try buying a small amount of the alternative security, until you're more comfortable with its performance and characteristics; then consider moving more money into it.

3) Overconfidence Bias:

“I have an edge that you (and others) do not.” A person with overconfidence bias believes that his/her skill as an investor is better than others' skills. Take, for example, the person who works in the pharmaceutical industry. He/she may believe in having the ability to trade within that sector at a higher level than other traders

How to overcome :

Maintain realistic estimations of yourself and your ability know that every investment day offers a new set of challenges and that no investment technique is perfect.

Ashmita Sharma
MMS A
First Year

PORTFOLIO DIVERSIFICATION – HOW MUCH IS TOO MUCH?

What is a Portfolio?

Portfolio is a grouping of financial assets of not only stocks, bonds, commodities, currencies but also includes mutual, exchange-traded and closed funds. A portfolio can correspondingly consist of non-publicly tradable securities like real estate, art and private investments. Portfolios can be handled directly by individual investors and/or managed by financial professionals and money managers. Investors are advised to construct an investment portfolio according to their risk tolerance and their investing objectives. An investment portfolio can be understood of as a pie that is divided into pieces of varying sizes, representing a variety of asset classes and/or types of investments to accomplish an appropriate risk-return portfolio allocation. Stocks, bonds and cash are generally considered a portfolio's fundamental building blocks.

What is Portfolio Diversification?

Diversification or Allocation of your portfolio is the practice of spreading your investments around so that your exposure to any type of asset is limited. This practice is adopted to help reduce the volatility of portfolio over time. It is one way to balance risk and reward by diversifying your assets. A well-diversified portfolio comprises of different types of securities from diverse industries, with varying degrees of risk. Diversification may not necessarily guarantee against a loss or ensure a profit but it is one of the most important elements to helping someone reach their long-term financial goal, while also minimizing their risk.

Factors that impact Portfolio Diversification:

- **Risk Tolerance** - An investor's risk tolerance should have a significant impact on what a portfolio should look like. An investor should minimize exposure to securities whose volatility makes them uncomfortable or challenges the amount of risk they are willing to bear. For example, a conservative investor might favor a portfolio including large-cap value stocks, a position in liquid, high grade cash equivalents whereas a risk-tolerant investor might assume some high-yield exposure and look to real estate and alternative investments for their portfolios.

- **Time Horizon** – Investors should consider how long they must invest when building a portfolio. Investors should generally be moving to a more conservative allocation as the goal date approaches to protect the principal amount that has been built up to that point in the portfolio. For example, an investor nearing retirement may want to invest in more conservative assets to help protect what has already been saved whereas an investor just entering into a new job may want to invest their entire portfolio in stocks since they have longer time to invest and the ability to bear the market's short-term volatility.

How much is too much of diversification?

Diversification ensures a steady stream of returns. However, this advantage will not be available to those who participate in the market directly. **Investors stand a bigger risk to lose out on their returns if they fail to strike a fine balance in diversification.** Sometimes, diversification can go terribly wrong and having too many funds could lead to losses than gains, especially in the case where investors plan to invest in Mutual Funds (MF). This is because they end up picking up funds that invest in same or similar stocks or value funds or growth funds which follow the same investment pattern. For instance, an investor having 3 large cap category MFs in their portfolio with each mirroring the other two leads to duplication. This swells up the portfolio and actually brings less benefits. Therefore, the winning bet is to pave a middle path that ensures maximum returns.

One way to strike the right chord in diversifying portfolio is to avoid cluttering of funds. While diversification is important in any portfolio, too much can lead to investment mistakes. It is better to use common sense strategy that the investor can comprehend without losing sight of the financial goal spread over a specific period of time.

Over-diversification makes it difficult to track funds on a regular basis. One has to go through all relevant statement pertaining to all the funds in the portfolio regularly and industriously. Another issue accompanying over-diversification is the need to constantly review funds' performance and revaluing the portfolio base on that. Owning a compact spray of funds, which are clear in their investment style and strategy may be an appropriate tactic. This is because they are far too easy to follow.

This is not to say that diversification is not significant. If there is little or no diversification, the risks stacked against the investor increases automatically. It is very essential to have a sufficiently balanced portfolio.

An aggressive investor should follow the rule of more allocation to equity funds and less of debt. As the risk of the investor changes, percentage allocation also changes from aggressive to conservative. In a conservative, the rule is reversed with less allocation to equity funds and less o debt.

Conclusion

Diversification protects investors from risk. But over doing it may lead to lower or no returns. It is better to diversify investment across categories because it ensures an edge for investors since better market performance of one category could offset underperformance of another category. Investors should also look to avoiding many schemes that invest in similar category funds to avoid duplication. One prudent way to evade over diversification is to pick one scheme from each category.

The investment mantra should be: "Avoid Over-Diversification". It is bad for the investors since it not only shrinks returns but also upsurges risks.

Bhavya Shah
PGDM D
First Year

BEHAVIORAL FINANCE

What is Behavioral Finance?
It is a sub-field of behavioral economics and is a study of the influence of emotions and psychology on the behavior of investors which ultimately affect the capital markets. It majorly throws light on the part that investors cannot think rationally all the time. They have limits to their self-control and at times are trapped in their own biases. It is a sub-field of behavioral economics.

Purpose of behavioral finance?
The main purpose of behavioral finance is to understand and identify why people make certain financial choices when it comes to money. It helps in explaining severe rises or falls in stock markets due to behavior of investors.

Explanation:
The term "**Efficient Market Hypothesis**" consists of a theory that at any point of time in a liquid market, the prices reflect all the given information, i.e. share prices are discounted. But there are many theories on historical phenomena in capital markets which contradict the "Efficient Market Hypothesis". The contradiction is due to rationality factor. The historical phenomena show irrational behavior of investors affecting the capital markets.

The traditional models were predicted on the belief that:

1. Investors are rational and have perfect self-control.
2. Investors have clear thoughts.

But then, when traditional model is mixed with Behavioral models:

1. Investors are treated as normal and not rational.
2. Every investor has a limit to their self-control.
3. Investor's judgements are clouded by their own **biases**.

Definition of bias:
Biases can be stated as the shortcuts investors use to reach to a conclusion. They can be rational or irrational. Everybody has biases. It is a human habit that affects our behaviour and judgement, based on fixed mental notions and understandings. There are two types of biases, conscious and unconscious. Conscious biases are tendencies toward behaviours and a thought process that a person is very well aware of that they have. An unconscious bias is when a person's behaviour is manipulated or influenced by a belief or instinct that they aren't completely aware that they possess. Biases appear across various stages of life and are extremely present in investing and financing. When investors act on a bias, they fail to look at the full issue and can be ignorant to various facts that contradicts their initial and actual true opinions.

The two main components of investor's bias are Emotional bias and Cognitive bias. Analyzing emotional biases can help in removing feelings and attachments from a transaction that are clouding the investor's decision. Avoiding cognitive biases allows investors to reach an unbiased decision based solely on available facts and data.

Top biases are as follows:

1. Overconfidence and illusion of control
2. Self-Attribution Bias
3. Hindsight Bias
4. Confirmation Bias
5. The Narrative Fallacy
6. Representative Bias
7. Anchoring Bias
8. Loss Aversion
9. Herding Mentality

Concepts of Behavioral Finance:
Basically, there are following key concepts or biases when it comes to behavioral finance:

1. **Mental Accounting**: Mental accounting is an economic concept which states that investors consider personal funds differently from total funds and hence this leads to irrational decision-making in their spending and investment behavior.

2. **Herd Behavior**: One of the largest crises of all times was subprime crisis of 2008. The biggest question here was how did this bubble burst all of a sudden? Part of the answer is herd behavior. Investors have a tendency to mimic the ideas and opinions of a larger group no matter if those actions are rational or irrational. Generally, investors have no personal opinion while taking those decisions. Similar actions can be seen in the dotcom bubble.

3. **Anchoring**: An anchoring bias can cause an investor to reject a sound financial decision, such as buying an undervalued stock or selling an overvalued stock. It can be present anywhere in the financial decision-making process, from important forecasting inputs, such as sales volumes to final output like cash flow.

4. **High Self-rating/Self Attribution**: It refers to a person's biasedness towards ranking him/herself better than others or higher than an average analyst or investor. For example, an investor may think that he is an investment guru when his investment performs extraordinary but will turn pessimistic when his contributions to an investment perform poorly.

5. **Disposition Effect Bias:** This is a tendency to tag investments as winners or losers. It can lead an investor to hold onto an investment that no longer has any potential to grow or sell a winning investment too early to make up for previous losses.

6. **Worry:** The act of worrying is a basic human emotion. Worry generates memories and predicts visions of possible future scenarios based on past actions and that alters an investor's judgment about personal finances. Worrying about an investment increases its risk and lowers the capacity of risk tolerance. To avoid this bias, investors should match their level of risk tolerance with an appropriate asset allocation strategy from time to time.

Tips to avoid Behavioral Biases:

1. Manage Emotion.

2. Seek Contrary Opinion.

3. Be a renter not an owner.

4. Don't chase yesterday's winners.

5. Beware of crowded traders.

6. Pay attention to analysis than theories and stories.

As **Warren Buffet** has rightly said:
"Be greedy when others are fearful, fearful when others are greedy. The most successful investors are aware of behavioral traps, and take steps to avoid them."

Hitesh Singh
MMS B
First Year

POLITICAL GIMMICK OF LOAN WAIVER AFFECTING CREDIT CULTURE

A "Populist" measure such as "Blanket Debt Forgiveness" would prove no good, and that the government should instead find the root cause that contributes to a debt pile-up.
- World Bank

Before understanding loan waiver and its implication, we need to understand the problems faced by Indian agriculture and farming. Having a major chunk of Indian workforce employed in farming still it merely contributes 17.32% of Indian Gross Domestic Production. This clearly states the income generation of a farmer in India is very low. There are various reasons behind this, no other sector in India claims the level of uncertainty as faced in agriculture. Broadly Yield risk and Price Risk are two main factors.

Yield Risk - Nearly all farm decisions relate in some way to the expectation of crop yield, because of successive drought and hailstorm it results in low production output.

Price Risk - Price risk depend upon demand and supply, at times due to higher production and harvesting supply increases and it leads to reduction in price of product in market.

For livelihood farmer tries to overcome these issues and avail bank loans, but the concern is due to such uncertainty in the production and market, farmer fails to generate enough income to repay the loans. Now the question arises in such situation is loan waiver right decision? Some might think yes as it reduces farmer's burden of loan, but it is found in studies that such waivers never serve in long term and has more negative implications for farmers as well as Nation's economy and banking structure.

What is Loan Waiver?

In an effort to stimulate economic activities government have routinely intervened in credit market. The central and state government take the responsibility of the loans taken by farmers and pay them back to the banks.

We know that recently three major states Madhya Pradesh, Rajasthan and Chhattisgarh have waived off farmers' loans amounting $8.6 billion, approximately Rs.59100 Crore. And this is not the first-time government has announced such packages nor will it be the last time. If we look at the major farm loan waivers in India, we find that humongous amount of money has been spent in loan waive off.

In 1990, the first ever nationwide farm loan waiver was announced and cost the state Rs.10,000 Crore. One of the largest borrower bailouts in history took place in 2008 by Government of India against the backdrop of 2008-09 Financial crisis when Rs.52,000 crore was released by the Indian government as part of the Agriculture Debt Waiver and Debt Relief Scheme (ADWDRS). The trend continues and Andhra Pradesh in 2014, Uttar Pradesh and Maharashtra in 2017 announced loan waiver.

Roles of Banks and resulting fund crunch for states

All Banks in India are required to allocate 40% of their net credit to "Priority sectors" which includes agriculture and small-scale industry while this mandate forces the allocation of a significant share of credit to subprime borrower. Such stimulus programs of loan waiver had no effect on productivity, wages and consumptions but led to change in credit allocation and defaults. Post such programs, loan performance declines faster. Studies have shown that when loan waiver is given it leads to increase in willful defaulters and credit culture of country gets badly damaged. Most of the times loan waiver schemes are partial and waive off certain amount of loan or only certain farmers' loan in such scenario other farmers whose loan is not waived off they also stop repayment of loans in expectation that their loan will get waived off in future and eventually this leads to NPA's in banks.

Arundhati Bhattacharya, chairman of State Bank of India said "Today, the loans will come back as the government will pay for it but when we disburse loan farmers will again wait for another election expecting another waiver. Also, such compensation by government never reached banks on time which creates hindrance in banking operations." In such a situation, to maintain profit margin in banking operations, banks increase interest rates. It becomes a challenge for policy makers as it could fuel the inflation.

Another aspect of loan waiver is that when farmers are given waiver, they are not provided loans in future as banks know that such farmers might default in future. Following waiver forces farmers to approach informal sector lending to maintain their livelihood, this increases indebtedness as such loans are expensive. This vicious cycle eventually affects farmers. We have seen that even after such huge loan waive off in year 2008 and 2014 suicide rates of farmers have increased. According to NCRB's report in 2015 over 800 farmers and 4500 agriculture laborer's committed suicide. It shows that loan waiver has only detrimental effects in long term.

Increase in government's fiscal deficit

The Uttar Pradesh state reeling under the debt of Rs.3,27,470 crores, the nation's second most indebted state had announced a loan waiver of Rs. 36,359 crores. To compensate the Banks, state has to find own resources as there is no assistance from central government. Fiscal Responsibility and Budget management (FRBM) act mandates that no state can allow its fiscal deficit to grow beyond 3% of its GDP. It is not possible for government to generate revenue to compensate banks in one financial year and it will ultimately affect the banking operation. This loan waiver triggered the demand for same in other states. In Madhya Pradesh, total expenditure of Rs.1,86,683 crores for 2018-19, of which Rs.1,25,000 crores has been spent till October end. Now new government has announced Rs. 35,000 crore loan waiver, in context of Madhya Pradesh State own tax revenue is around Rs. 50,000 crores in financial year 2017-2018. It is so obvious that government is using tax payer's money to provide loan waiver which will not even benefit farmers in long term.

Solution for farmer distress

(Improve yields + Combat the vagaries of rainfall and temperature + Better price for its produce)

To improve yield, instead of waiving loan, government should provide free or more subsidized supply of fertilizers, seeds and modernize equipment. Banks do provide subsidized crop loans but to invest in machinery and equipment long term loans should be given at low rates. Investment in new technology will lead to better produce. To fight against the rainfall and temperature, crop insurance (Pradhan Mantri Fasal Bima Yojana) should be available to all farmers at low premium amount. When production increases, supply of product increases as compared to demand, this leads to fall in product prices. To maintain the price of product there must be proper storage capacity and warehouses facility for farmers.

Massive investment in farming infrastructure, such as adopting drip irrigation and sprinkler irrigation system, water conservation, better storage facility, market connectivity, better agricultural resources and enhanced Minimum Support Price (MSP) will definitely improve farmer's condition, and not political gimmick of loan waiver which is only affecting credit culture and banking operation.

Karishma Bathija
PGDM D
First Year

THE INDIAN LEHMAN MOMENT

The coincidence is uncanny. Almost to the day 10 years ago, when trouble surfaced at iconic US investment bank Lehman Bros, leading to its bankruptcy on September 15, 2008, India had its own near-Lehman moment. One of our largest infrastructure finance companies, Infrastructure Leasing and Financial Services (IL&FS), a "systemically important core investment company" registered with the Reserve Bank of India (RBI), began to implode. At first slowly and now, more rapidly!

Starting with a default on its Rs 1,000 crore bond repayment to SIDBI (Small Industries Development Bank of India), IL&FS and its non-banking finance subsidiaries have begun to renege on one repayment after another. By Friday last, fears that mounting troubles in the IL&FS group might be symptomatic of larger problems in the non-banking finance company (NBFC) space and, in turn, pose a serious threat to financial stability saw markets plunge more than 1,100 points intra-day.

The unstated fear was that thanks to its inter-linkages with the financial system IL&FS, like Lehman before it, may drag the entire financial system and the larger macro-economy down with it.

For now, the storm seems to have abated. Latest reports speak of Orix Corporation, the diversified Japanese financial services company and one of the largest shareholders in IL&FS, being willing to up its stake; of government and RBI pitching in to help with speedy sale of IL&FS assets. But these are only band-aid solutions that cannot, and will not, last. We need to look deeper and address the cause, rather than the symptom, of the disease.

"Never waste a crisis," said Rahm Emanuel, former US President Barack Obama's Chief of Staff. Sound advice! The crisis at IL&FS has exposed a number of fault lines. To begin with, the ills of the financial sector go much beyond the much-maligned public sector banks. It is the familiar story of failure on multiple fronts: the regulator Reserve Bank of India (RBI), credit rating agencies who downgraded IL&FS much too late, auditors, and most importantly, the board of IL&FS.

Take these one by one. IL&FS is a 'Core Investment Company', a holding company, whose operations are restricted to investments in group companies. It is registered with RBI as 'systemically important', that is its financial health has ramifications for the financial system and the economy. Given that one of the biggest learnings of the 2008 crisis is of the dangers posed by shadow banks like IL&FS, one would have expected RBI to keep a close eye on IL&FS, particularly in view of its excessive leverage. But, sadly, it failed to do so!

If RBI bears the main responsibility for the unfolding events at IL&FS, it is not the only one. Rating agencies have, again, been caught sleeping on the watch. Ratings have been rapidly downgraded; in many cases *after* the event.

The problem goes deeper. Rating agencies are technically under the Securities and Exchange Board of India (SEBI); but are not subject to close regulatory oversight. Worse, under the current rating model, fees are paid by the rated entities. There is, thus, a huge incentive to give generous ratings for fear of losing business. Until we address this basic flaw in the rating model, ratings must be taken for what they are worth: very little!

Company auditors are no less culpable. The annual accounts of IL&FS and its close to 200 subsidiaries were audited by some of the biggest names in the profession. Yet none thought it fit to red flag the growing dependence on short term debt and the excessively high leverage.

The biggest opprobrium must, however, be reserved for the board of IL&FS. As with Satyam Computers and more recently ICICI Bank, IL&FS had a star-studded board. Yet Ravi Parthasarathy, CEO from 1989 till July 2018, seems to have run the company like his fiefdom. Not only were no questions asked, so it would seem, he was handsomely rewarded for presiding over the virtual destruction of IL&FS. According to the latest annual report, his last annual pay was close to Rs 25 crore – 141 times the median salary of the IL&FS employee.

Each of these entities, RBI, rating agencies, auditors and the board, must share the blame and take corrective measures. But there is a larger factor at play that must be factored in while considering any kind of rescue package: the inherent flaw in the extant model of infrastructure financing. This makes any short-term solution akin to kicking the can down the road. Infra projects have long gestation periods. They require long term funding that neither banks nor NBFCs can provide.

Moreover, issues related to land acquisition, environmental clearance, policy flip-flop, political interference and rapidly changing external dynamics make infrastructure financing particularly risky. Cost and time overruns are inevitable. Unless we address these, we will not be able to ring-fence either banks or NBFCs from the risk associated with financing infrastructure. Look no further than to the erstwhile IDBI, ICICI and IDFC that were initially set up as term-lending institutions and then had to be converted into banks to save them from going down under.

It is imperative that before we consider any solution, especially bailout with taxpayer money, RBI must make an informed assessment of IL&FS's inter-connectedness (and, hence, risk of systemic failure). Remember, any solution will prove short lived unless we address fault lines all around, including underlying risks in infra financing.

Rajas Muley
MMS A
First Year

INTERIM BUDGET 2019 IN BRIEF

The Interim Budget was presented on 1st of February 2019 the Interim Union Finance Minister Mr. Piyush Goyal. The budget is a political correction to appease the middle class and low income constituency of the nation. But economically speaking this budget has been presented when the Indian economy is not in the pink of its health.

The **fiscal deficit** target was missed for fiscal year 2018-19 and now it stands at 3.4 per cent. Despite the move towards a simpler tax structure through the Good and Services tax (GST), certain far-reaching reforms on the financial front through the new insolvency laws and benign crude oil prices for most of its tenure, the government had been grappling with a precarious economy. Employment remains a bigger concern for the growing economy to sustain what it demands of becoming a **$10 trillion** economy by 2028.

The budget has brought a glimpse of tax haven seeked by taxpayers with a taxable income upto Rs 5 lakh. Taxpayers will enjoy **Tax Rebate** on income of upto Rs 5 lakh with addition to this there is an increase in **standard deduction** from Rs 40,000 to Rs 50,000. Tax exemptions for individuals investing in provident funds, specified savings, insurance and prescribed equities will increase this tax slab to a minimum of Rs 6.5 Lakh to a maximum of Rs 9.85 Lakh (including home loan*).

Pension for organised Sector was introduced under 'Pradhan Mantri Shram Yogi Mandhan' which will provide monthly pension of Rs 3000.
Pension for unorganised Sector can avail the same by investing Rs 100 per month during their working age. This is a mega scheme affecting 10 crore workers in organised and unorganised sector.

Direct Income Support for Small and Marginal Farmers with 'Pradhan Mantri Kisan Samman Nidhi' specifies a **Rs 6000** annual direct support for farmers owning a land less than **2 hectares.** An additional **2%** interest subvention and additional **3%** interest subvention upon timely repayment.

This will add to income support run by state governments and thus improve upon the MSP (Minimum Support Price) which stands at 50% of the invested fund.

Gratuity Limit has increased from Rs 10 Lakh to Rs 20 Lakh thus making it a prospect for increased savings by an individual.
Income Tax Returns are getting digital and all refunds are to be issued simultaneously with introduction of Electronic I-T return which will assess and verify to make an assessee-friendly process.

The **Defence budget** has been the highest till now with Rs 3 lakh crore, and this was achieved with a hike in military service pay. Also introduction of **OROP** introduced a Rs 35000 crore revenue deployment in defence sector.

Lastly, **TDS** threshold has been increased on **house rent** upto Rs 2,40,000 with tax exemption on notional rent of second house.
TDS on interest earned from **Bank or Post office deposits** has been raised from Rs 10,000 to Rs 40,000.

This free hand in the proposed budget was possible because of increase in tax base to **6.85 Crore** contributing to **Rs 12 Lakh Crore** showing an increase of 80% in last 5 years. Concluding we await the final budget coming in July which will revise budget keeping in mind the need to disclose important statistics on farmer suicides, labour data and NSSO survey on employment.

NLDIMSR STUDENTS BAG THE FIRST PRICE IN NATIONAL LEVEL FINANCE COMPETITION ORGANIZED BY INDIAN INSTITUTE OF MANAGEMENT, TRICHY (IIM-T)

IIM-T had organised a Flagship Finance event- "Fusionen Miester" - an ultimate valuation challenge which was held on 27th January, 2019. The students of N.L.Dalmia Institute of Management Studies and Research, Molisha Jain and Jhanvi Devani (PGDM Finance), secured the 1st position in the competition. The competition comprised of three rounds.
First round was an online quiz pertaining to basic financial concepts. Teams qualified for the second round were given an Equity Research and Valuation project. Six teams made it to the grand finale to compete for the title. The final round consisted of a live presentation to the esteemed judges of the IIM Trichy, followed by a Q&A session.

The strategy used by the winning team was to analyze the overall health of the company by undertaking quantitative, comparative, technical and fundamental analysis using different valuation models.

Jhanvi Devani and Molisha Jain with judge Prof. Bipin Kumar Dixit

Kalpi Gopani
PGDM - D
Second Year

INTERVIEW EXPERIENCES

CRISIL

An S&P Global Company

FINAL PLACEMENT – CRISIL

I was lucky to work as an intern with RBI and that definitely was one of the reasons for being a select at CRISIL Ltd. in the Research department. The journey so far has been exemplary. Before sharing my interview experience, I would like to give you a glimpse of the campus placements and factors that acted as a catalyst to lend me a job in CRISIL.

CRISIL was one of the first recruiters to come to our college. Initial shortlisting on the basis of resume was followed by a round of an aptitude test and a personal interview. After which they selected their final list of students to be hired for the job and I was one of them.

What really helped me crack the interview was the subject matter knowledge of AFSA (Accounting and Financial Statement Analysis), AFM (Advance Financial Management) and IF (International Finance), along with the summer internship project.

During mid second semester, I selected 2-3 industries of my interest and started tracking the performance of the top companies in those industries/sector, red its annual reports, studied the key drivers, analyzed its trends with the impact of global and govt. factors on the same. This is what really helped me differentiate between book knowledge and what we term as 'practical application'.

In the end, we were required to take a decision to move outside the city as the opening for the profile was PAN India. For me it was an opportunity of a lifetime which I readily agreed for. In the job you grow as an employee, but staying alone helps you grow as a person. Both time and money management will follow you at a great speed. It is important to remember that between a good package, a good brand name and a good profile you need to choose what is best for you.

To summarize,
- be different and proactive, because everyone is hardworking and capable;
- be patient and positive, your time will always come;
- be confident with a 'Can Do' attitude and there will always be a solution.

Drumil Shah
PGDM – D
Second Year

FINAL PLACEMENT – CITI

This two-year journey has been one of the best learning experiences ever for me. Being an engineer, subjects like accounting, economics and financial markets felt alien to me, but my hard work along with the guidance and help from our beloved faculty helped me to steer through academically and land me a career at Citi Corp.
The third semester was an intimidating one as we have all the core finance subjects coupled with the dilemma to make career changing decision on what we want in life as placement season draws near.

Citi Corp had offered three profiles viz., Financial Planning and Analysis (FP&A), Investment Banking Analyst (IBD) and Finance & Risk Infrastructure (FRI). Our institute was ever so grateful in arranging Alumni interactions and campus engagement program which included pre-placement talk and 30 hours session for all the final year students in order to enlighten and help us understand the profiles better. Taking insights from the interactions, I identified my strength and interest areas thereby nominating myself for FP&A and IBD. IBD profile had a shortlist for the aptitude test as well as for the final round of interviews whereas FP&A had a direct shortlist for interviews. I was happy to see myself get shortlisted for both FP&A and IBD.

As far as the interview was concerned, the first question is always an innocuous looking "Tell me about yourself". This question gives you an edge over the interviewer as it puts you on the driving seat and drive your interview towards your strengths. As a piece of advice always be aware of the words you write in your resume and be thorough with your previous work experience if any, summer internship and the projects that you have done in your academics. My interview experience was exhausting and overwhelming as I had three rounds of FP&A interview, two rounds of IB interview and one final round of HR interview. They tested my analytical abilities by providing ongoing situations and how would I solve that particular problem if given the authority. Such an engrossing process can test your mental strength but always make sure you stick to your strengths and answer the questions with same conviction as you did in the first interview of the day.
My learning from these two defining years was to streamline my goals, focus on improving myself, gaining knowledge from others and learning from my mistakes. If you follow this with determination and discipline, it will help you in achieving the career you desire.

Shalaka Parikh
PGDM – D
Second Year

FINAL PLACEMENT – KOTAK MAHINDRA BANK

It has been a roller coaster ride, this 2-year journey. However, the most important time has indeed been that of placements. So many profiles and so many companies to choose from, and the selection processes of each company; it is very daunting and exhausting. Nevertheless, you need not worry because you will get constant support from the professors for whatever help you need.
For Kotak Mahindra Bank, the profile offered was that of Branch Relationship Manager. First, we were given a detailed pre-placement talk by the panel. The company made a lot of emphasis on the type of job role that we were required to manage, the kind of work we will be required to do on a day-to-day basis, if hired and they made sure to clear all our doubts regarding the profile. They also gave us a brief about the company and the group as a whole. The process was quite simple: A group discussion for all the candidates, followed by a shortlist, which was then followed by a personal interview of each of the shortlisted students. The group discussion topics were very general. They emphasized a lot on our communication skills and our behavior in the group discussion.

As far as the interview was concerned, it included questions based on scenarios pertaining to different aspects of relationship management. If you are a fresher, as I was, my advice would be that you be very well prepared with your summer internship projects as well as any other project that you have mentioned in your CV. Understand your projects very thoroughly and practice on how you will explain the same when asked. If you have prior work experience, be very thorough with your answers to questions about responsibilities and the projects that you have handled in that organization. You should be able to talk at length about your projects, when asked. Because of the profile, any subject specific knowledge was not required, but they sure were focusing on our convincing skills, our communication skills, our attitude towards the profile and our body language as a whole.
One more point to be noted is that, while preparing for any interview, please read a little about the company you are interviewing for, because it helps. Study and understand the profile well, be known about its products and the key people at the company. Do prepare for general questions like “Tell me about yourself”, “Strengths and weaknesses”, “Why sales”, “Why MBA after Engineering” because these will be asked and you cannot afford to fumble when answering them. Your answers to these questions help you stand out from the rest of the crowd.

Ashutosh Vispute
PGDM – D
Second Year

FINAL PLACEMENT – FACTSET RESEARCH SYSTEMS LTD.

I'm currently working as a Consultant with FactSet Research Systems Ltd. (India). Working here has made me realize that levering data and industry leading financial analytics solutions can help turn tables for investment management firms.

Working with FactSet has been a knowledge enriching experience. Being first recruiter to be on campus, competition had to be at its peak, and which is valid too. Preparation for interviews started well before a semester earlier, which I feel should be started from day one of joining MBA course. Knowledge of a wide range of entities depending on the types of businesses they are involved in the finance sector is crucial. Leveraging the sources available and proactive approach in gaining insights about development in the industry are key in carving out a niche position for yourself, not only during interviews but throughout your career. I'm thankful to our institute's various initiatives to offer students with best in-class resources.

Competitive group activities and challenging one-on-one interviews concluded the selection process. The next step, FactSet Foundation training which takes place in Manila, Philippines, followed by Product Training in Singapore ensures new hires are exposed to various environments, clientele and cultures, which I think is a rare training procedure followed globally. On successful completion of trainings, I'm currently a part of the Client Consulting Group, Asia Pac Region.

FactSet's culture is highly client oriented and is reflected by retention ratio. In order to be capable of consulting clients which forms a broader spectrum, the learning curve is exponential. Friendly colleagues and hierarchy-free environment can impact the productivity of the firm, and this has been the key factors for the big market share that FactSet has today. As it is said, there's no single solution for a single problem, the flat organizational structure helps to approach any senior colleague for getting the best possible solution that would solve our client's query.

For my colleagues at Dalmia, I'd like to suggest a few things which I followed during academic life and it's been proven helpful in various situations.

1. Be receptive to any information that's relevant, no matter what the source.
2. Strive to answer the question 'why this?' in any situation rather than 'how to resolve this?' It not only gives you a solution to the problem, but would make sure that you are ready for bigger challenges in life.

Onkar Kadu
MMS – B
Second Year

FINAL PLACEMENT – TRANSPARENT VALUE

Transparent Value is one of the most sought after companies at NLDIMSR mainly due to the profile and learning curve it has to offer. Higher retention period of ex-Dalmiaites at Transparent Value is a good indicator of work quality and job satisfaction.

Transparent Value is a Guggenheim Partners Company and is essentially an Investment Advisory and Research arm of Guggenheim. "Associate – Credit Research" and "Analyst – Equity Research" are the two profiles offered by the company at our campus.
To say that Transparent Value has the most rigorous recruitment process and high hiring standards would be an understatement. The hiring process begins with an Aptitude test at the campus, where in the candidate has to solve 60 MCQs in 45 minutes keeping in mind negative marking. Questions include financial concepts, AFSA, FM & SAPM numerical etc. Next is a preliminary interview for the shortlisted candidates where we were grilled upon our understanding of basic accounts, analysis of financial statements and securities market.

Further follows the most demanding part of the process. Post further shortlisting selected candidates have to go through a week-long Financial Modelling assignment at the Transparent Values' office. The most unique aspect of the assignment is that one can gain hands-on experience of the actual work that goes into the job of a Credit Analyst at Transparent Value. In my experience mentors at Transparent Value were very helpful in understanding the proprietary model that we had to work upon. The assignment was quite inspiring. Comprehensive knowledge & ability to understand Financial Statements and a fairly good ability to research will be necessary to complete the assignment correctly. The final interview was equally difficult where I was grilled extensively on my understanding of the Financial Modeling assignment and the credit research done along with the assignment. Interview was completely technical but easier to go through if you actually understand what you have done in the assignment. Topics of AFSA, Fixed Income and Financial Modeling are essential to crack not only Transparent Value interviews but also every other Credit Research and Core Finance profile. Those aspiring to be analysts make sure you know your way around Bloomberg. The college has made a great lab offering students extremely focused and high-end knowledge programs with high- degree of practical learning and on-the-job applicability.

FINANCE FORUM EVENTS

MULYANKAN 2018

N. L. Dalmia Institute of Management Studies and Research, organised its flagship event Mulyankan, the National Level Paper Presentation Competition for B-School students, on 5th October, 2018, followed by Finance Conclave with 3 panels of eminent speakers from industry on 6th October 2018. Five teams representing ISB Hyderabad, NIBM Pune, NLDIMSR, NMIMS and Sydenham competed to win the coveted trophy of Mulyankan 2018. The topic for the competition was "Equity Challenge-Spot the Multibagger".

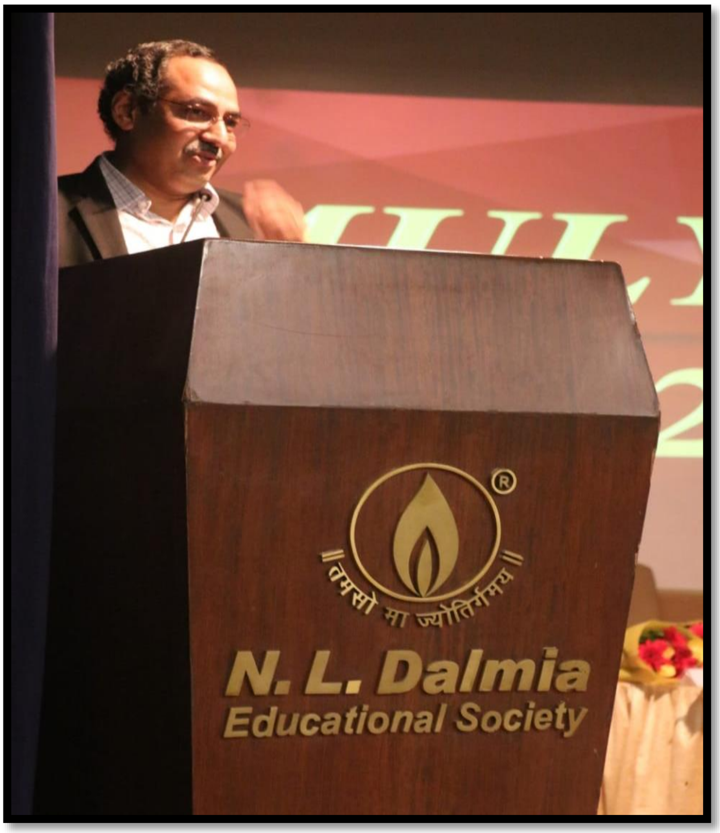
The teams researched and came up with presentations on the multibagger stocks like Indigo, Dilip Buildcon Ltd., Aksh Optifibre Ltd., Edelweiss Financial Services Ltd. and Deepak Nitrite Ltd. The judges assessed each team's performance, posed questions, and suggested areas of improvement. The panel of honourable judges included Head Equity Research, Ventura Capital, Mr. Vinit Bolinjkar; Director, KeyNote Capital, Mr. Uday Patil and Head Equity Research, Evercore Advisory LLP, Mr. Nishit Mehta.

The judges gave their insights on the topic and added value to the event with their significant experiences.

The winner of esteemed Mulyankan 2018 trophy was NLDIMSR, followed by ISB Hyderabad and NIBM Pune teams as the first and second runner up respectively.

FINANCE CONCLAVE 2018

N.L Dalmia Institute of Management Studies and Research, organised Finance Conclave, a daylong event where three panels comprising of experts on stock markets spoke of their experience dealing with the stock market.



The event started by the speech of Keynote speaker Mr. A. Balasubramanian, CEO, Aditya Birla Sun Life AMC Limited. The most important message conveyed by him was that companies that create long term solutions are relevant across decades.
The first panel had experts from the field of Equity Research. Mr. Mangalam Maloo, Anchor CNBC TV18, hosted the panel. Mr. Dnyaneshwar Padwal, Mr. Nishit Mehta and Mr. Vinit Bolinjkar were the panellists.The panel said that the key trait of a successful investor is to be emotionless while doing transactions.
The second panel comprised of industrial honchos from the Portfolio Management industry. Mr. Vinayak Kanvinde, Mr. Gaurav Jain and Mr. Dhawal Gala gave us two rules; one is to not lose money and the other not to forget rule number one.
The last panel had three of the most experienced traders of the industry. Mr Yash Agarwal, Mr. Hitesh Lodha and Mr. Anshuman Mishra narrated how practical learning in the financial markets trumps theoretical learning.

GUEST SEMINAR ON PITFALLS IN INVESTING IN EQUITY

N. L. Dalmia Institute of Management Studies and Research organized an informative seminar on "Pitfalls in Investing in Equity and the mistakes one should avoid". The seminar was conducted by Mr. Shagun Jain, Vice President and Segment Manager Sales at Kotak Mahindra Bank. Mr. Shagun Jain, a qualified Chartered Accountant and a MMS (Finance) graduate from JBIMS has thirteen years of professional experience where he has worked as a Relationship Manager, has been involved in strategy building, had exposure to sales, research and consulting, and currently looks after transaction banking, all of this giving him a rare blend of expertise in the financial services space.
He started the seminar by clearing the misconception of Financial Sales being insignificant and actually being a crucial function offering a plethora of career options involving ideal decision making and a constant thought process.

He then continued to explain how Investment in Equity is not only about analysing the scientific models but is also an art. He adduced that while there may be various approaches to identifying a good small-cap stock, it is a treacherous ground. Relating to this, there are several aspects to look at specifically and very diligently while investing in smaller fare like Related Party Transactions, Change in the name of the company, Management Remuneration and Employee Numbers, Pledging of Shares, Cash Flow from operations and CAPEX to name a few. According to Mr. Shagun Jain, "The market is eternal. We should spend less and save more and keep investing regularly."
The seminar ended with the guest addressing the queries of the students, making it exhaustingly interactive session.

GUEST SEMINAR ON CAREER OPPORTUNITIES IN EXCHANGES

N. L. Dalmia Institute of Management Studies and Research organized an informative seminar on “Exchange Products and Career Opportunities for MBA aspirants in Exchanges.”. The seminar was conducted by Mr. Aman Singhania, Vice President- Index Development and Research, National Stock Exchange. He holds a Master’s Degree in Business Administration from NLDIMSR. He also is a qualified Chartered Financial Analyst. During the last 15 years of his professional career he has worked as an Executive-Compliance at Sharekhan, Equity Research Analyst at ULJK Securities Pvt Ltd., Associate Director, Index Development, Funds and Fixed Income Research at Crisil.
Mr. Singhania is a recognised expert in Fixed Income Instruments. He explained different types of bonds in India, why the Indian bonds market is smaller in India compared to the equity market. Students were made aware of the workings of a stock exchange and what is the role of employees in every department.

Various job opportunities for MBA graduates in a stock exchange were also told. It was a very informative seminar and the students benefited from it.
The seminar ended with the guest addressing the queries of the students, making it exhaustingly interactive session.

BRIEFING SESSION ON StockMIND COMPETITION

N. L. Dalmia Institute of Management Studies and Research in collaboration with ICICI Direct organizes StockMIND, a National Level mock trading competition. The Institute, on 24th January 24, 2019 invited a representative from ICICI Securities, Mr. Shubham Chourey to brief and instruct the students about the competition. Mr. Chourey is the Regional Marketing Manager, Mumbai at ICICI Securities.

Mr. Chourey explained how Equity Market penetration is increasing due to an increase in awareness amongst the investors. Mr. Chourey stated, "If you want to grow financially, invest into equity." He explained the importance of investing in equity by citing examples like WIPRO, Eicher Motors, Colgate; showing how their stocks have grown exponentially.

StockMIND is a National Level competition at Under Graduate and Post Graduate level where the students are given an opportunity to trade in the live market with virtual money; hence eliminating the risk of real loss. The quantum of virtual money availed is Rs. 15 Lakhs and the competition is extended over 7 trading days with an option to trade either in Cash Market or Margin, whichever is suitable for the participants. ICICI Direct has listed 100 blue chip stocks in which the participants can carry out their transactions using the Login provided by ICICI Direct. The competition will be first carried out at Institute level and then the winners will be given a chance to compete with the winners from other Institutes.

This competition will start from 28th January, 2019.

Mr. Chourey while ending the session explained how competitions like these give an opportunity to the participants to invest virtually without the fear of losing mammoth amounts and building confidence when it comes to investing in equity.

GUEST SESSION ON FIXED INCOME SECURITIES

N. L. Dalmia Institute of Management Studies and Research organized a knowledge enriching session on Fixed Income securities on 2nd February 2019. The institute invited Mr. Jatin Mehta to enlighten the students with his vast experience in this field. Mr. Mehta has completed his FRM. He is currently working with Reliance Life Insurance as a Treasury Manager. He has also worked in the treasury department of NSE and Shamrao Vitthal in his past 9 years of professional experience.

Mr. Mehta discussed the key points of interim budget. He led the students to the importance of fixed income securities by explaining how the Government borrows from Banks to meet the requirements due to fiscal deficit in the form of SLR requirements. He threw light on the industries linked to debt market- Banks, PFs, Insurance, Mutual funds- and how this is a booming sector to make careers in. Mr. Mehta also explained the structure of treasury of such companies. While explaining the yield curve showing the inverse relationship between prices and yield to maturity, Mr. Mehta put forth the 3 things you should look while investing in fixed income securities-

1) Cost of the bond
2) Amortized cost of the bond and
3) Market Price

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