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MUD₹A

Department of Commerce

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Sanyukta (6 B.COM C)

CONTENTS

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INDIAN MARKET 2016 – RISKY AND VOLATILE

Navin Babu
2 BCOM C

Overlook

Markets in 2016 are poised to stay volatile in the short term, but jump in for long term as India is poised for a big leap. The question is *"What are the market risks for 2016?"* If the government takes populist path following reversals in some state elections, that could be bad for the economy. If the economy does not pick up and we are not in a position to bring back the economy on track, then it will be an issue. Dr. Raghuram Rajan said in the bi-monthly monetary policy that *"We are now clearly in the midst of a recovery".* 2016 is going to be a volatile year because of the uncertainties involved. Retail investors should invest in funds which invest dynamically because these make money out of volatility. Most of the retail investors would stay away from the market, thereby showing a decline in Mutual Fund sector, and it will turn out to be a **Seller's Market of 2016.** The only way to achieve a bullish trend is to motivate the retail investors to stay invested and show the global investors that India can create several companies like Maruti that are larger than their parent companies. The investment thumb rules of 72,114 and 144 should be followed by the investors for high yield in the long term. Investment in equities should be well planned for 2016, which is said to be highly volatile. A balance between equity and debt must be maintained for risk aversion. If retail investors have their money invested in a band of 10-12 PE, then the chances of making money in 2-4 years is very high.

Large global investors are of the fact that in India legislative changes would be quite slow. A lot of work has happened in power and coal sectors which can now be extended to other sectors. The role of government is to solve these issues and clear the blocks. The **Goods and Service Tax** is passed in Lok Sabha and was hoped to be passed in Rajya Sabha which is not done yet. Since the demands of the congress have not been met, it is taking time to pass the GST Bill in Rajya Sabha. On 28th January 2016, Nitin Gadkari said, "*GST will be passed without Congress".* The implementation of GST will lead to a slight drop in prices of goods and services and also tax burden on the consumer. It will reduce the transit time, thus bringing more efficiency into the system and benefitting manufacturers. The direct beneficiary of the GST bill would be on manufacturers and logistic companies. Maruti Suzuki, Century Plyboards, Mahindra & Mahindra, Sun Pharmaceuticals and Amarraja are said to be the beneficiaries of GST.

Make in India campaign also as a positive impact on the Indian Markets. Because the campaign is aimed at making India a manufacturing hub and the government is pulling out all the stops for ensuring a smooth sailing for investors. Infrastructure, Power, Oil & Gas, Banking and Metals & Mining are likely to benefit as India marches forward on the growth map.

Investors should prepare themselves for a shock, mainly due to external uncertainties like volatile crude oil prices and China's Economic data, which would surprise the global markets. The negative inflows of news from around the world could impact the Indian market and the economy.

China's Stock Market Crash and its Impact on Indian Market

1. Commodities

   China is one of the largest consumers of metal in the world. A slowdown in China or an expected slowdown would lead the metal prices to decline sharply. Indian metal producing companies listed on SENSEX have seen their stock prices free-falling. India being a developing economy, with large consumption of metals for upcoming Smart Cities programme, the low global prices results in lower costs.

2. Crude Oil

   The crude has free-fallen in the Q4-2015 due to slowing global consumption of oil. With the demand from China also expected to dry up, crude prices are expected to fall further. For India, lower oil prices mean lower inflation, lower Current Account Deficit (CAD) and higher production and economic growth.

3. Devaluation of Chinese Currency, Renminbi

   China, a Currency Manipulator, gave a signal regarding that its economy is weak and the authorities are desperate to prop up exports. Cheaper Yuan makes it even more difficult for Indian exports to compete with Chinese exports as in textiles and apparels. Slowing Chinese economy also means lower commodity prices globally which hurts Indian commodity producers though helps the overall inflation levels to come down. Though the SENSEX has remained relatively flat in the last three months, it succumbed to global fears over the weekend with the SENSEX down 8.5% accompanied by an accompanying sharp fall in the INR. The real impact can be witnessed in the USD version of the SENSEX.

Global Market volatility is expected to remain due to weak Chinese economy and the expectation of interest rate hike in US, which would slightly affect the Indian Market and the economy. RBI’s Governor Raghuram Rajan said that they are well prepared to defend the rupee against a further fall with USD 354 billion chest and it is to be noted that the Rupee has not yet slid to its previous low of ₹68.80. Consumer price inflation is also under control at least in the immediate term though it remains to be seen if it can be sustained.

Stock Watch

Sun Pharmaceuticals closed with 789.20 points on 23rd January 2016 and closed at 872.95 points on 29th January 2016, high price being 878.00. It’s 52 week low being 704.00 points and high being 1200.80. It is expected to cross the 900 benchmark as it is expected to be a buyer’s stock for the Q4-2015.

Future path

Indian market may rise over 10% by the end of 2016. SENSEX is said to achieve 32,500 points by mid-2017. Retail investors can divert their risk by investing through Systematic Investment Plans (SIP), which benefits them by rupee cost averaging. The SENSEX is expected to trade at 24,000 points by the end of this quarter. 2016 is not a market for speculators, but for investors. A good portfolio with no skewness towards one or two assets, with good asset allocation, will eliminate the risk of the investors in the market for 2016. There is an expected downfall in the market of 2016, as we are in the midst of recovery.

THE 14%....!!!

Vidisha Kothari
4 B.COM C

The 14% is the so called service tax in India. In the 2015 budget, the finance minister, Arun Jaitley announced the new service tax rate that is 14% which is applicable from June 1, 2015.This is the tax which is charged by the service provider just how import duty is being paid on .This has become one of the important taxes in the country and this was introduced in 1994 under the finance ministry of Dr Manmohan Singh.

Service tax is levied on any act, or work performed. 100% service tax is levied on declared services. There are some services which receives rebate and there are services in the negative list which are not taxed at all.

"To facilitate a smooth transition to levy of tax on services by both the Centre and the States, it is proposed to increase the present rate of service tax from 12.36 percent to a consolidated rate of 14 percent," Jaitley had said in Budget speech.

The service tax has been increased by the companies so as facilitate better services to the people in the economy. The increase in service tax has pros and cons. Pros are that we get to have better social services like better education, infrastructure and good social security. Cons are basically for the middle class people, it becomes very difficult to save which indeed leads to lack of mobilisation of funds and capitals which is one of the important factor for the economy to develop. Thus, they will have to start thinking twice before they spend on anything. The government should think before they increase the tax, this tax is applicable where ever we go. Every coin has two sides, in the same way the tax levied on people might be adversely affect but the government has no other option, but to increase it.

Agreed, on the fact that making a budget is not easy but the government should take proper precautions and then increase taxes so high. Also, the government should make good transparency in levying the tax, decreasing the gold tax for 2%and increasing service tax to 14%, is not healthy because the service tax is something that a consumer pays at least once in a day but when it comes to gold tax, on an average the consumer buys gold once in 1 month not on every day basis, the government should take care on these entire things before taking such decisions. For example, if a company provides a service for Rs.200000 then the service tax implied will be Rs.28000 (14%) so the total fees for the company will be 228000. This is a very huge amount.

There are areas where the increase tax has made problems to the common man where the services have become more costly they are railways, airlines, banking, insurance, advertising, architecture, construction, credit cards, event management and tour operators.

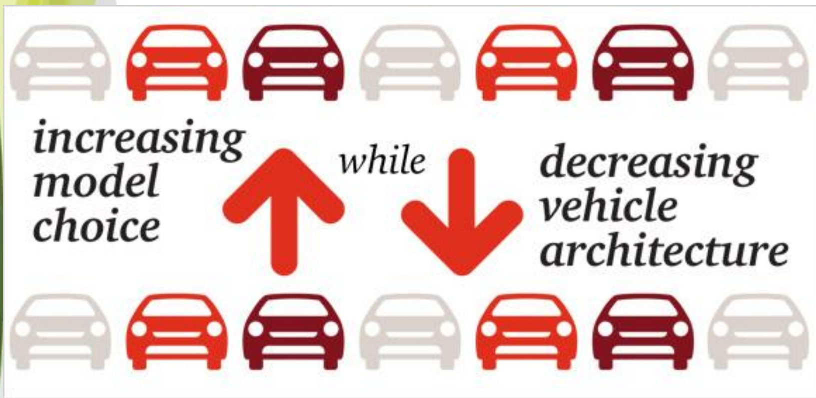
"RECENT TRENDS IN THE INDIAN AUTOMOTIVE INDUSTRY"

Jaideep Hotwani

4 BCOM C

The automotive industry in India is exponentially growing and the number of cars and bikes sold in the recent years has been increasing without any signs of stopping. As time progresses, the Indian market for automobiles is welcoming new vehicles with innovative features, designs and safety features.

When it comes to cars, there has been an increase in demand for compact SUVs. Compact SUVs are rugged-looking vehicles that provide value for money and are big enough to suit the needs of the average Indian families. Almost every major car manufacturer in India has seen this opening in the market and has taken advantage of the opportunity. It is effectively a win-win situation for the consumers and the manufacturers. On one hand, the manufacturers are profiting from increasing demand and higher sales while on the other hand the consumers have the luxury of choice and get better offerings in the market. The stiff competition in this segment has also driven manufacturers to keep their prices reasonable and to provide festive discounts on their products.



Another segment where there is an ever increasing demand is for hatchback cars. These are small cars - perfect for traffic congested roads - and are very affordable. One can see that the demand for hatchbacks has existed from the time the Maruti 800 was introduced in India. Even in this segment the car manufacturers are realizing that they need to improve their product offerings as well as safety features in order to win the hearts of the consumers. Most of the new hatchbacks are being released with better structures, airbags and convenience features.

There is certainly a great future for the automotive industry in India. However, it is necessary to ensure sustainable growth by looking at alternate fuels that are environment friendly. As long as the Indian public demands better and more efficient vehicles, innovation will continue in this sector.

IMPORTANCE OF CREDIT RISK

Sharon Rhea Michael
6 B.COM C

Credit risk implies a potential risk that the counterparty of a loan agreement is likely to fail to meet its obligations as per the original loan agreement, and may eventually default on the obligation. Credit risks can be classified into many forms such as options, equities, mutual funds, bonds, loans and other financial issues as well, which in extensions of guarantees and the settlement of these transactions.

Risk is always associated with the banking activities, and taking risk is the important part of any banking operation, there is hardly any banking operation without the risk. Most of the bankers are said to be sound when they have a clear overview of what is the amount of risk involved in the current transaction and they make sure that some of the partly earnings are therefore kept for these risks. The granting of any form of credit is the common form for any bank and this risk is very common and this is the source of risks the banks are always exposed to.

The credit risk is in the entire portfolio of any bank and also the risk which is associated in individual credits or any other transactions have to be managed adequately. It is always ascertained that the relationship between the credit risk and other forms of risks need to be considered very seriously in to account, in order to:

- Increase shareholder value through value creation, value preservation and value optimization
- Increase confidence in the market place
- Alleviate regulatory constraints and distortions.

THE BARREL TUMBLES

David Vishanth
2 BCOM C

Oil which is one the most important resource on our planet earth, it is the driving force of every moving thing made by man. We could also put it as the fuel to every engine .Over the years we have seen a lot of unexpected turn of events like the 6 may 2010 Wall street market were nearly 1000 points were lost of the board ,another one occurred a year later were most of the stock market were volatile and were going red . However, the recent and maybe one of the worst of them was the one which occurred last year in July. At that time the world witnessed the unstopped decline in the china market were Nikkei was going red over the next 6 months and a steady decline in the market. The aftershock is still on and its effect was so huge that we saw a 16% decline in investment in market funds all over the world .The reason for such a sudden decline was the devaluation of their currency, their polices which back fired . It could also be the crude oil price; all of these factors played a major role.

We saw some unpredictable change that happened but the crude oil prices which was a slow and for a long period, $89.7 per barrel in 2010 to $33.5 per barrel in Jan 2016. Even though the barrel prices are not constant it varies every day and it is completely based on demand and supply. This is not some marginal variation this is huge, we could assume that maybe the demand for the crude oil has gone down that is why prices have dropped .But that is not case as the demand has doubled over the years even the other commodities has seen a considerable amount of increase. Then we can question as to what is the reason for such a huge decline when demand is high .The only conclusion is that supply is more than demand- basic economics .Over the last 5 to 6 years we could see that countries are getting into a market were profit margin was more with less competitor sand more demand and now we could see the effect of that. Countries like the Saudi Arabia the leading producer(produces 10,190 barrel per day) , Russia(10,100 barrel per day), U.S(9,400 barrel per day),china(4,317 barrel per day) and other countries like Iraq, Canada, Iran who also play a major role in the supply of crude oil in the world.

Saudi is the major player in the market where it has set a standard and aims to increase in supply by 25% .While Russia is neck to neck with Saudi it is not going to back down this race has leads to a cut throat competition but they are not realising that the fact that they are just damaging there marginal profit. On the other hand, we witnessed the sanctions of Iran exports and other deals which were signed between U.S and Iran was one of the major news at the start of 2016 .The U.S had kept the sanctions were that if any foreign individuals or firms has to get approval of U.S before buying oil or gas from Iran . Trade and investments in petrochemical, metals, shipping, shipbuilding and also includes banking and insurance all these sanctions were lifted after the pledge which was taken by Iran was not to take any initiative in nuclear programme and also it has not to export in any arms to other countries for 5 years .Iran's major trump card is the crude oil where it plans to increase its sales by 5,00,000 barrel and also increase its exports by 2.5 million barrels within the next year with is a beneficial for their GDP .It is also planning to give discounts on oil prices so these action could lead to a point where we could see that the oil prices could become cheaper than water which could also lead to a price war between Saudi Arabia.

We could see that the oil prices have seen the lowest of $26.19 per barrel which is the lowest of 11 years last year. So all these new player who have entered in the market will cause a direct effect on the prices, which is also has an indirect effect on the stock market all over the world. This is the main reason for a volatile or a bearish market from being bull. However, it is has benefits to countries which import crude oil and also companies who use crude oil as their raw material. India is also one of 4th highest importer of crude oil which is beneficial for the oil industries in India and which could have an influence on the growth of other countries. We could also see a drop in the prices in the coming months unless there is some stringent action on polices on trade or the level of supply.

FALLING OIL PRICES: 5 WAYS IT CAN AFFECT INDIA

Rajat Shenoy
6 BCOM C

Oil is one of the major commodities of international trade. Most of the economic activities are dependent on oil and hence it is a major requirement for any developing economy.

At present, global crude oil prices are down by nearly 40% since June 2014. The current price is hovering around $30 per barrel (which was once being traded at $100) and some predict that it could further fall to $10 per barrel. The reason for this decline is more than one. To name a few – the increased supply of oil, cutting back of oil imports by the US, and some conspiracy theories like Saudi's attempts to weaken Russia etc. In this context, let us take a look at how it affects India.

Here are the 5 ways it can affect India:

1. Imports – India imports nearly 80% of its oil needs. The share of oil in total imports is 32%. These big figures suggest that a fall in oil prices will surely benefit our economy. This is because; lower oil prices will reduce the total value of imports thus reducing the Current Account deficit (Imports – Exports). According to a report by Livemint, a fall in price of $10 per barrel results in a reduction of the deficit by $9.6 billion.

2. Gross Domestic Product – The price of oil is directly connected to the cost of production as oil is required for manufacturing activity and transportation. Thus a reduced cost of production equips the companies to produce large quantities of goods while maintaining or even increasing their profit margins. The Automobile industry will benefit the most, as falling petrol/diesel prices will increase the demand for

vehicles. Thus a fall in oil prices is a boon to the Indian economy as the country prospers with high level of national income due to a high level of economic activity.

3. Inflation – We have learnt that oil prices are an important factor of the cost of production. A high cost of production will increase the prices of commodities and vice versa. Thus lower oil prices will indirectly help in containing Inflation in the economy. A report by Money control revealed that every $10 per barrel fall in oil prices helps reduce retail inflation by 0.2% and Wholesale price inflation by 0.5%.

4. Oil Subsidy – The Government spends a considerable amount from its kitty in the form of oil subsidy. The subsidy is given to compensate the loss of companies selling oil products at low prices fixed by the government. Thus, a large portion of government's funds is locked in this item of expenditure which leads to a rise in fiscal deficit (spending more than earning, by borrowing from markets). A fall in oil price, will mean reduction in losses of companies and consequently lower amount of subsidies. This will also improve the budget allocation of the government by making funds available for more productive activities.

5. Oil Producers and Exports – On the flipside, India is also a major exporter of refined petroleum products. It accounts for about 20% of the total exports. Thus a decrease in oil prices will severely hit the domestic oil producers and their revenue leading to a reduction in the value of total exports.

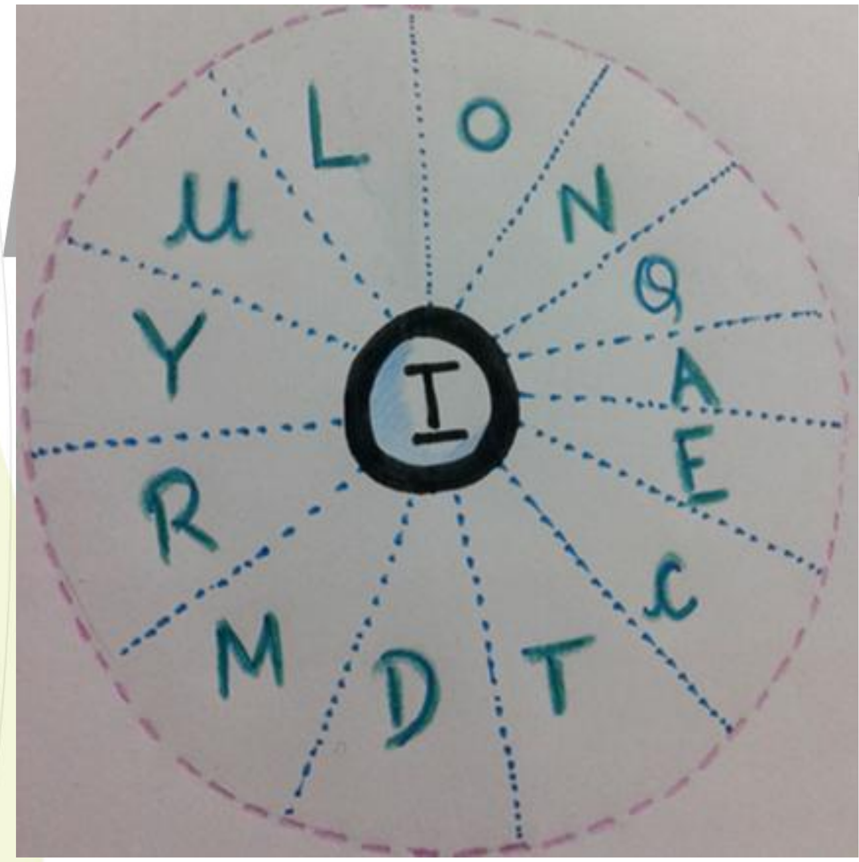
   Also, if we take a look at the major importers of Indian goods, we will find countries like United Arab Emirates, Saudi Arabia, and Iran having a significant share. Crash in oil prices has hit the economies of oil producing countries. Hence our exports to these countries have substantially reduced over a long period of time. Therefore fall in exports has somewhat neutralised the gains from fall in imports.

Thus a quick glance shows that falling oil prices is favourable for our economy, with some negative effects in areas like exports.

WORD CART

Sanyukta Sahi
6 BCOM C

1. Each letter should consists a minimum of 4 alphabets
2. Every word must include the alphabet “**I”**
3. Any alphabet can be used multiple number of times in a word
4. All words must be relating to Accountancy and Auditing
5. Example: Audit Manual



QUIZ FOR THE MONTH

Lijo John

2 B.COM C

1. Azim premji has been judged as the NO 1 philanthropist for 3 years in a row. He is known to live frugally. What is his car?
2. .  Identify this former Google employee who was the lead developer for Gmail. He also gave the Google tagline “DON’T BE EVIL”.
3. Under what brand name has the Tata group re-entered the cosmetics business after 18 years?
4. Which Indian co has the largest number of followers in Facebook as well as LinkedIn making it No 1 in terms of its social media appeal?
5. Identify this ecommerce co from its logo. It wants to be the Wal-Mart of e-commerce. It is one of the largest advertisers on Facebook.
6. With which online retailer would you associate the hash tag #Kyapehnu ?
7. According to Morgan Stanley’s Ruchir Sharma BRIC is out, FANG is in. Expand FANG.
8. What % of their shares in Facebook would Mark Zuckerberg and his wife give away in charity in their lifetimes?

ANSWERS FOR THE PREVIOUS QUIZ

1. Nestle
2. Ratan Tata
3. Forever 21
4. Powerset
5. Sajjan Jindal
6. Anil Ambani
7. Guo Guangchang
8. HDFC Ltd
9. The Hindu
10. Starwood