INSTITUTE OF MANAGEMENT

CHRIST (DEEMED TO BE UNIVERSITY) BANGALORE · INDIA

DEPARTMENT OF FINANCE KENGERI

PRESENTS

NISHKA

• A FINANCIAL NEWSLETTER •

JUNE-AUG 2018, VOLUME IX
ISSUE 64

IN THIS ISSUE

Goods and Service Tax is followed across the world. In India, the idea was conceived during April 2010 but there was a delay in the implementation due to lack of consensus between all the States. Later in July 2017, GST was introduced as a single indirect tax, making India a unified common market. This brought about uniformity in the taxation system across the country.

A year has passed since India's adoption of the simplex tax system. Though the regime could not address all the problems in the country, it has to be acknowledged that it did solve many of the issues in the country's taxation policy pertinent to the manufacturers and exporters. GST reduced the cost of manufacturing of local products and services, leading to improved competitiveness of Indian products internationally, giving boost to Indian exports.

While other countries experienced an increase in their inflation rates when they switched to the GST tax regime, India fared quite well when the single taxation system was launched. The number of tax returns filed in FY 2018 also increased from 5.43cr to 6.84cr in comparison to FY2017.

The country has fairly reached stability with the new tax system. As of April 2018, the total GST collected crossed Rupees 1 trillion. This has proven to be a success in the Indian tax framework.

A boon to common man:

The reform was designed in such a way that it is transparent, laying down anequivalent field for the common man. The major goods and services which benefitted from GST are:

1. Restaurant bills charge 5% GST, from VAT 12.5% plus service 6%.
2. Air travel is taxable at 5% for economy class
3. Processed food with 12%
4. Oil and soaps 18%
5. Coffee, tea and spices 5%
6. Cab expenses 5%
7. Lower tier hotels cheaper under Holidays

Winners of GST:

Real Estate: The input tax credit which developers cannow avail for taxes paid on construction material and services.

FMCG: The rates have been lowered by 500-600 bps when compared to previous rates. FMCG companies like ITC, Britannia, and HUL etc benefitted after GST.

Pharmacy: This sector saw 2% hike in GST rates, but it will be profitable in the long run as this will be passable to customers/patients.

Consumer Durables: There is not much significant impact of GST on durable goods as there is an increase of 1% against the old rate.

Logistics: This being the backbone of the economy, against the pre-GST of 26%, logistic industry now pays 18% and above tax as GST helping all the logistic companies pays less.

The GST implementation has earned praise as well as faced brick bats. However, looking at the big picture, it is very evident that the post-GST period has been far more beneficial as it showed up a clear and simple form of tax system in the country. Even though the regime is relatively new, it has shown a lot of promise and is expected to give a boost to the Indian economy. Thus, this change can be considered to be more of a boon than a bane.

A haircut costs 5 bananas and 2 eggs. It might sound absurd, but it is possible in a country filled with extreme poverty, humanitarian crisis and plummeting oil revenues.

Venezuela, a small country with a population of 32.4 million has now become a daily headline across the world with its deepening economic crisis. Yes, it's thousands of miles away, but relevant enough to guide the future path of our own economy. If someone asked the people in Venezuela to choose between going for a war or living in the country, they would happily choose the former because they feel living in such conditions is worse than a war.

Oily Economy:

It has more oil reserves than Saudi Arabia and more poverty than Colombia. Venezuela's oil revenues contribute to 95% of its total earnings from exports. It has the largest oil reserve compared to any other country in the world. Thus, any changes in oil prices greatly impact the flow of money in the treasuries of Venezuelan government. Oil revenues have helped the country to boost its economy for years. During Hugo Chavez's presidency, the oil price even touched the record high of $100 per barrel. However, the drastic fall in oil prices from an average of $100 per barrel in 2012 to just $40 in 2017 has left the country with a tailspin economy.

Is the over-reliance on oil the only root cause for economic crisis?

No, oil dependency is not the only root cause to the Venezuela's tailspin economy. Many of the policies introduced by Hugo Chavez backfired. Under Hugo Chavez, with a view to neutralize economic inequality, billions of dollars in the government’s coffers were used to finance food subsidies and social programs. Chavez took measures to slash the prices of commodities and other key items drastically in order to eliminate the income inequality differences. The prices were reduced to such an extent that the industries started claiming that they cannot produce the goods with losses. If the production cost of a Corn flour bag is 700 Bolivars, the government price for a Corn flour bag would be 600 Bolivars, much lesser than what it cost to produce. Though it was affordable to many citizens, it affected the industries significantly.

Domestic producers thus started shutting down their industries. The government was left with very minimal foreign currency to buy goods from other countries. Currently, Venezuela is experiencing the lowest foreign reserves in over 20 years. According to CNN Money, their foreign reserves are currently at $10 billion and they might further slide to $5 billion soon. The country’s imports are down by 75% and have left the citizens of Venezuela with a hefty shortage of even the basic necessities. The current inflation rate of Venezuela is 46000%. It is the worst ever inflation rate compared to any other country.

The economic crisis has eventually led to a humanitarian crisis. Locals in Caracas are standing in queue all the night so that they can grab just one milk packet when the store opens in the morning. With a hyper inflated economy, people are starving for basic food and medicines. Presently with there being no cash in the economy; it has resorted to the barter system. The present economic scenario of Venezuela is worse than ever. Its economy has become a free fall economy. Currency value is plummeting and the prices are hyper inflated.

Out of its 32.4 million populations, nearly two million people have left the country since 2000 and everyday thousands of Venezuelans are pouring out of the country fearing survival in their crippled nation. Venezuelans are the top asylum seekers in the US. However, in the recent years, the xenophobia of US citizens is making it difficult for the Venezuelans to enter US.

In the last 18 months, nearly one million Venezuelans have entered Colombia and recently, the President of Colombia has extended 2-years’ long help for Venezuelans by providing residency permits to almost half a million people.

Measures to survive:

Despite the minimal chances for success, Venezuelan government can take possible actions to control the crisis. Primarily, the economy with large imbalances needs to be adjusted and stabilized to put an end to the cumulative recession of the last few years. Government has to ensure that the poor and workers section in Venezuela do not suffer in it. A system needs to be set up to set the seal on the availability of at least basic food and medicine in the country. Once this is in place, the government needs to focus on tackling the inflation problem. This can be solved only by currency float and unifying the exchange rate. By taking this step, government would be able to avoid losing precious reserves defending an overvalued currency. This would further decrease corruption. Also, dysfunctional price controls need to be eliminated and consumers need to be protected from price increases. Reformation of tax system and management of foreign currency could be the biggest source of enrichment throughout the process.

Pursuing import-substitution and diversifying strategies could be made more feasible by adjusting to lower international oil prices in the long run. The country should also become self-sufficient in its food production. As long as the country does not produce what they consume, it will always have to be dependent on other states.

The trade wars between The USA and China started in January 2018 when president Trump decided to levy tariffs on all imports coming in from various countries in order to put pressure on them to reduce their duties for US products. In the next page, we have a timeline showing how the trade war began and later on intensified between the two nations.

The G7 summit or The G6 plus “One” this year (8-9 June) happened in the midst of a wave of uncertainty as the US went all guns blazing against many countries by levying tariffs on steel and aluminum products and other divisive policies with the claim that it was done to protect the interest of domestic producers. At the summit, US President Donald Trump made a long list of acquisition against other countries calling fair trade to be a fool trade if the trade benefits are not reciprocated. At the same summit, Mr Trump also made a statement against India that it charges 100% tariffs for US products and threatened to cut off ties.

TIMELINE

22 January
US imposes tariff on washing machines and solar appliances

2 February – China starts anti-subsidy investigation on imports of Sorghum.

9 March – Trump signs tariffs on aluminium and steel products for all countries.

22 March – US challenges china with its unfair trade practices (technology transfer, IP and innovation)

23 March – China imposes $3bn as tariff in retaliation to the tariffs earlier imposed by US.

27 March – US releases section 301 report on China (IP issue)

2 April – China claims that will levy tariff on the $3bn worth products including wine, fresh fruits and pork. `

3 April – US releases a list dominated by high tech industrial products on which they will be levying tariffs.

4 April – China decides to levy 25% tariffs on consumer products.

16 April – ZTE gets banned in US for breaching contract.

17 April – China announces that it will collect tariffs on anti-dumping on sorghum imports to collect from the US.

27 March- China may cut car tariff imports by half.

17 May – Talks start in Washington

18 May – China drops anti-dumping of sorghum imports.

20 May – Both nations reach an agreement. **Actions** – US holds off on tariff as China offers to significantly increase purchase of goods from US.

22 May – China agrees to remove tariff on US farm products as a part of the deal.

22 May - China agrees to cut tariff to 15% from 25% in cars.

23 May – Trump backs away from the previous day's deal and that US will have to use a different structure.

28 May – US said to be pressing China to sign long term imports contacts.

29 May - US announces that it's moving ahead with tariffs on $50 bn of imports and curbs to invest in sensitive technology from China.

30 May – China announces cuts to tariffs consumer goods which are to start on July 1st.

7 June – Commerce Secretary Wilbur Ross announces ZTE to get back into business.

US announces tariffs on $50 bn of imports from China.

3 July – US computing chip manufacturing unit halts sales in China.

6 July – ZTE corporation receive limited authorization to resume business in US

Tariffs on $35bn in imports begin by US.

In the next two weeks, tariff on $16bn imports levied depending on US action.

Earlier this month, Trump imposes tariffs on $200 billion on Chinese exports.

IMPACT ON INDIA:

Trade wars between nations have never been good news for the global economy. 1930s was the last time the world saw any major trade war, when countries attempted to boost their trade surplus. As a result, global economy slowed down and eventually it resulted in the Great depression. There has never been an attempt at a full-fledged trade war in the last 80 years.

When a trade war happens, it just doesn't affect the two economies involved. It ends up affecting all the economies open to world trade since it is an interdependent phenomenon. So, India is also getting dragged into this issue. There will be indirect impact of trade war on India in the form of short run benefits and long run challenges.

Several countries, including India, have warned the US via WTO, not to impose such unilateral trade measures. The trade war could hit China's import and dent exports where India could pitch in to meet the demands of China and other countries. As US-China war persists, India can export soybean, groundnut and oil meals to China. China has imposed additional tariff on medical equipments imported from the US and reduced tariffs on many agricultural products including soya bean from its Asia Pacific Trade Agreement partners comprising of India, Sri Lanka, Bangladesh, South Korea and Laos. India will have a price advantage in the absence of US thus, expanding its scope for export opportunities.

And now, China has also stopped import of crude oil and gas from US because of trade war. The major buyer of crude from US is India after South Korea. India has booked a total of 9.94 million barrels of crude, expected to arrive from the United States this month. This has almost tripled in July and is expected to increase further by November. India also purchases crude from Iran and Saudi Arabia. Now as a major consumer, India may enjoy a better bargaining power to argue for a US waiver which will help to moderate the rise in crude prices.

India faces many non-tariff barriers which will reduce its pace of exports eventually. As the cost of steel makers increase by US tariffs, they may dump their product in domestic market which can only be absorbed if there’s enough demand internally.

China is one of the biggest exporters of base metals which will have a negative impact on prices by virtue of this trade war. The investments across the borders will also be affected as a chain reaction. Trade war will further widen the trade deficit in Indian market. Thus, imports will be expensive, leading to increase in inflation rates. It will reduce domestic purchasing power and will also depress the growth rate. That being the case, even if in the short run trade war is sometimes considered beneficial, a full-fledged trade war is bad news for world economy in the long run.

WILL INDIA RECOVER?

There is a lot of uncertainty with respect to how the ongoing retaliatory tariff impositions between the US and China will pan out. Capital flows will be affected, which is mainly due to the amount of easy money that was available by dint of quantitative easing drying up, rather than just trade wars.

India can substitute Chinese exports to the US to some extent and therefore gain. India can be more competitive in segments like textile, garments, gems and jewellery. But this is still sceptical in the short run because China’s exports to the US are much more diverse. The rupee will weaken further on account of capital flows than the impact of trade problems.

The main problem that would affect India is that the foreign investments may move out of India as people may dump the rupee. The Indian exports plus imports constitute 42% of GDP and also, the existence of current account deficit is dependent on external capital inflows for financing.

The Indian stock market is pretty bearish at the moment after combining all circumstances. The external pressure building at the moment is not very conducive for the Indian rupee. Mutual funds in the market are eyeing on pharmaceuticals industry and if any duties are introduced the sector will face a huge slaughter in the stock market. Further, the domestic industry will also be hit, with unemployment being a big issue in India and economy slowly coming back to normal, a trade war with the US will certainly impact the economy's growth momentum.

Concluding this, a tit-for-tat situation like the trade war, it's the consumers who end up losing. With the escalations in prices as the excise duties keep going up, consumers have no choice but to become a slave to these prices. Although the trade war mainly revolves around the US trying to protect the rights of its manufacturers while they accuse China of their unfair trade practices by stealing intellectual property, we believe that the trade war for both nations means more about who is able to gain the global supremacy and to dictate the markets.

If this war does not show signs of slow down, it can be safely told that the world is moving towards a greater depression.

Recently Reserve Bank of India vides its Feb 12 circular revised the resolution framework for stressed assets wherein they had done away with JLF, SDR and other restructuring schemes. Now, as the framework stands, it's mandatory for lenders to send the cases to NCLT for resolution on the 181st day i.e. the very next day post the 180-day deadline. This surely is a welcome move, but at the same time this has sent the bankers in a hurdle for one sector wherein their exposures are huge. The sector I am referring to is the Power Sector. The second list to be referred to NCLT is due on 01 September 2018.(*The Hon'ble High Court of Allahabad has stayed the RBI Notification of Feb 12 on a petition of Independent Power Producers and the said petition also has been challenged in Hon'ble Supreme Court by related parties and the matter is coming up for hearing on 07th August 2018*).

To understand the gravity of the situation, the first authentic document which had brought out the enormity of stress is the report presented to Lok Sabha by the **"Standing Committee on Energy, Ministry of Power, 16th Lok Sabha on 07th March 2018"**. The report is very elaborate and has submissions of RBI, SBI, Power Finance Corporation, Ministry of Coal, Ministry of Finance. The report lists out thirty-four (34) stressed power plants and, reasons listed for the stressed assets in this sector is unique unlike other infra sectors. The major causes of stress for such plants is non-availability of fuel (coal block cancellation, project set up without linkage), lack of enough power purchase agreement by states, contractual/tariff related disputes, aggressive bidding by Independent Power Producers (IPP) among others.*(Source: Pages 15-25,*

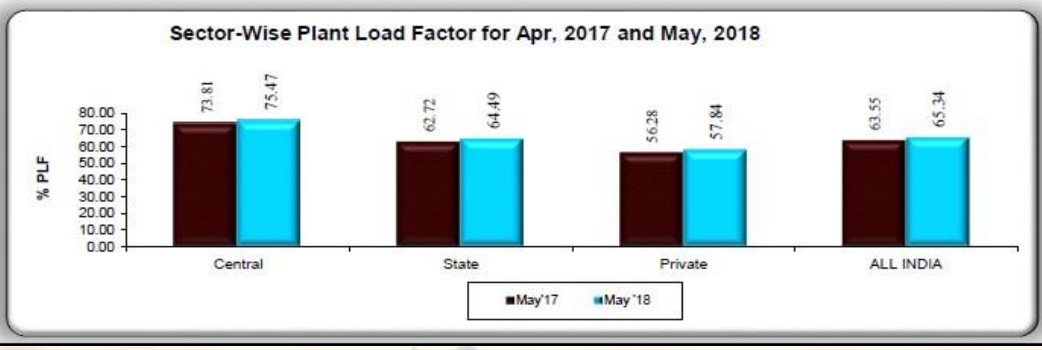
, 61-77, Standing Committee on Energy, Ministry of Power, 16th Lok Sabha on 07th March 2018)

The Power Purchase Agreement (PPA) as observed by the committee is a dominant cause. The reason for the same is how PPA is executed. State Distributors (Discoms) won't enter into PPA unless the project is atleast 80 % complete and that too, it's a notional agreement as one condition of PPA to come into force is fuel supply agreement i.e. coal supply. So, based on this notional PPA or Letter of Intent (LOI), IPP's would go for Fuel Supply Agreement with coal producers such as Coal India Limited and finally, before 6-8 months prior to commencement of production, a PPA agreement would be entered. After the Hon'ble Supreme Court cancelled the coal block allocation, the Government introduced the auction method. Many would not know that even in auctions, NTPC and other Govt. Owned Thermal Power Plants during that phase were accorded priority in allocation as there was imminent risk of power shortage in country at that time. This led to competitive bidding by the private players which created a cascading effect. Input Cost increased as, to meet shortfall coal is imported from Indonesia, China and further got complicated by tariff agreements as Discoms would enter into a PPA at a price agreeable to them which is lower than input cost for these IPP's. Further, payments from Discoms are delayed at most times creating cash flow mismatch problem for IPP's.

This led to a situation where the bankers were caught in this regulatory tug of war as almost 85% of the project cost is financed by them and any delay in implementation of project creates a major issue for them. A delay in implementation affects the IPP's interest service capability to their lenders. Going by the latest available Plant Load Factor statistics as published by Central Electricity Authority as on May 31, 2018 it stands at 57.8 % for Private Power Generating Companies as shown in the table below.

10. All India PLF* Sector-wise for May. 2018

	%PLF	
Sector	May'17	May '18
Central	73.81	75.47
State	62.72	64.49
Private	56.28	57.84
ALL INDIA	63.55	65.34



Naturally, it's the bankers who are facing the heat of this stressed assets on their books. But, apart from the hysteria surrounding NPA mess, very minimal attempt has been made to highlight the challenges these bankers face when they are to decide on financing such projects. Specific to power sector financing, bankers (Public Sector Banks majorly) have to deal with lot of uncertainties which are not known at the time of sanction or at best minimal actionable information is available to them when they sit for decision making. They mostly rely on the Detailed Project Report prepared by a sector expert and base their judgement on the basis of that along with their own guidelines.

The submissions of SBI Chairman, Power Finance Corporation Chairman to the standing committee is produced verbatim to highlight the challenges financiers face while financing a power sector project where they have unequivocally stated their stand on the same.

5.22 When the Committee pointed out that many promoters of stressed power projects are complaining about the non availability of adequate working capital, the, CMD, PFC deposed before the Committee as under:

> "Because we are a non-banking financial company, we do not have the receivables of the distribution company or the borrower. It is because the revenue of these developers or these companies is coming to their bank accounts. Bank has a charge on that. I am a non-banking financial company. So, we are supposed to give loan for creating assets. We have devised a special loan to help the developers in purchasing coal etc."

5.25 In regards to lack of working capital, the CMD, SBI during the sitting of the Committee on the subject, has stated as under:

> "I made this submission that we realized that the promoters have run out of their money and they cannot bring what they originally committed, or, whatever they committed, may be they are able to stretch, arrange and increase it by 5 or 10 per cent. As I have said that because it is largely lenders' money, that is, 80 to 85 per cent, for all practical purposes I have become the owner of that plant and it is in my interest and it is in the lenders' interest that even if a promoter is not bringing the money, I support him. That is the only submission that I am making that lenders are supporting. No promoter can say that when they came to the banks, they have not been given a patient hearing and we have not tired to hear their issues.
>
> If anytime there is an opportunity that promoters and we are sitting, I would definitely like to ask as to where the banks have not supported them. But, if it is a project, where 25 per cent project is complete and if the promoter is expecting that I will give 100 per cent, there I will have to say sorry. But if a project is 80 per cent complete, I know that the promoter cannot bring the money, I commit today that I will be ready to give the rest of the 20 per cent fund. So, it is like that."

5.26 However, CMD, PFC while expressing apprehension regarding taking over of the stressed projects by the banks/lenders stated before the Committee as under:

> "But the problem is that whenever you take over a project which is 60, 70, 80 per cent completed, when you try to analyse and later find out so many hidden things like many liabilities because in some projects, we are struggling. We are trying to handover the project because that developer had done so many things which were never brought to your notice. But when you actually go to the site, you come to know all those facts. So, it is not so easy. It is very difficult."

5.27 The Committee pointed out that on the one hand, Banks are sanctioning working capital and on the other, at the time of disbursement, they are adjusting it against the interest. So, the projects are effectively not getting any extra money. In reply to this the Chairman, SBI deposed before the Committee as under:

> "I agree that it will not solve the problem and that working capital should be used for working capital. If they are short of working capital, there will be problem of generation, but again, my humble submission is that if the unit's cost of production is higher than the price they are getting from Discoms and if Discoms are not paying them in time - I will review each and every case and will give them adequate working capital - sooner or later, it will again become inadequate."

The below figures show the fund based outstanding in power sectors by major lenders as on March 31, 2018.

Exposure of Banks to the Power Sector as on 31 March 2018

Banks	Total Domestic Outstanding (In Crores) - Fund Based	NPA (In crores)
State Bank of India	1,70,181	21,646
Bank Of Baroda	20,506	4,007
Bank of India	30,826	1,895
Syndicate Bank	13,867	1,356
Axis Bank	9,776	4,008

Source: Annual Reports of Banks 2017-18 & Investor Presentations for FY 2017-18.

Way Ahead??

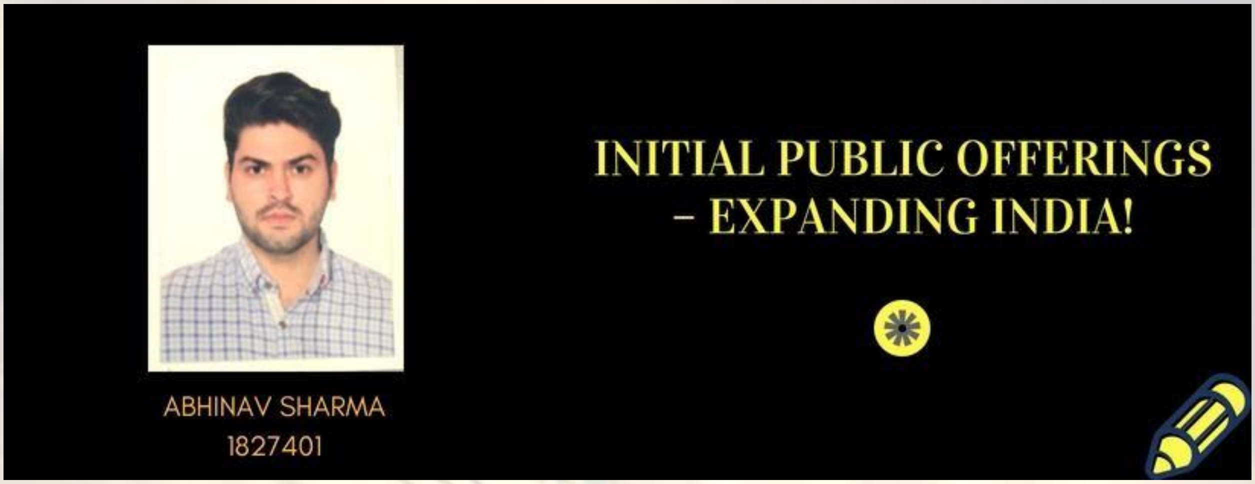
Recently State Bank of India, having one of the largest exposure to this sector proposed a Samadhan Scheme and identified Eleven Projects along with other lenders.Under Samadhan Scheme as formulated by SBI, lenders propose to take equity stake in a project by converting part of unsustainable portion of debt into equity. While developers will get to retain a minor share, the majority shareholding will be offered through bidding to new investors.

In Search of Solution: The Chosen 11

Stressed Power plant	Capacity (mw)	Location	Lead lender	Status
Lanco Anpara Power	1200	**UP**	REC	**Completed, PPA for 1100 mw**
Jaypee Power Ventures- Nigrie	1320	**MP**	ICICI	**Completed, partial PPA**
KSK Mahanadi Power -Akaltara	2400	**Chhattisgarh**	PFC	**Partially complete**
Coastal Energen	1200	**TN**	SBI	**Partial PPA/ FSA**
Avantha Power (Jhabua)	600	**MP**	Axis	**Completed, partial PPA**
Jindal India Thermal Power	1200	**Odisha**	PNB	**Part PPA/FSA**
SKS Power Generation (Chhattisgarh)	600	**Chhattisgarh**	SBI	**Cost overrun, PE firm Blackstone pulled out**
Payagraj Power Gen (Jaypee Bara)	1980	**UP**	SBI	**Full PPA**
RKM Powergen (Ucchpinda)	1440	**Chhattisgarh**	PFC	**Partial PPA**
IND Bharat Utkal	700	**Odisha**	PFC	**Partially complete**
Ideal Energy	270	**Maharashtra**	Canara Bank	**Complete**

The rush of the bankers is also justified given the fact that the deadline for the same is September 1, 2018 and beyond which mandatorily they have to refer the case to NCLT. The Government on its part has also supported the move of bankers by setting up an empowered committee to devise a mechanism to resolve the stress in power sector because it also very well understands the challenges of this sector and there is a consensus among all stakeholder’s maximum of the cases can be resolved without taking the route of IBC baring few as evident from the first list of 11 power plants as short listed by SBI and other lenders.

To conclude, the bankers are not always at fault and to question every decision and scrutinise every genuine business decision of theirs, will create a negative hysteria against bankers which will lead to a decision paralysis. Presently, this is what is happening as businesses are suffering on account of slow decision process by bankers on big ticket projects due to excessive scrutiny by investigative agencies for past cases which are ideally a business decision gone wrong and not always a conspiracy and criminality driven intention.



India's securities exchanges have had an extremely bustling year up until this point.

In the main portion of 2018, Indian bourses saw 90 beginning open contributions (Initial public offerings)— making for 16% of all postings worldwide and 27% over a year back.

India likewise observed a continued multi-year-on-year ascend in Initial public offering amid January-June 2018 at $3.9 billion (Rs27, 000 crore). This was 5% of the aggregate assets raised by means of Initial public offerings internationally during the period, as per an EY report.

Fifteen of the 90 organizations that opened up to the world in India between January-June 2018 recorded on both of the nation's driving bourses: the National Stock Trade (NSE) and Bombay Stock Exchange (BSE). These 15 represented 93% of the aggregate continues within the period.

The highest number of IPOs in India during the first half of 2018 was from the industrial sector which also topped in terms of proceeds. The companies from this sector that debuted on the stock market in 2018 include Varroc Engineering (raising Rs1, 955 crore) and Sandbar Technologies (Rs300 crore).

Other key sectors were banking (Bandhan Bank), hospitality (Lemon Tree Hotels), and food services (Barbeque Nation).

With respect to the second 50% of the year, it is probably going to be India's blossoming renewables industry that will see a flood in Initial public offering movement. "Numerous organizations in this (renewables) division are getting ready for starting open contributions.

The most important factor that'll keep the IPO momentum intact is the Security and Exchanges Board of India's decision to reduce the number of years for which a company needs to declare financial results, from five to three, before going public. This will provide an impetus to more IPO activity as lower efforts will be needed.

Some big IPOs expected to do well in the second half of 2018

1. HDFC AMC
2. Ambit Capital
3. Reliance General Insurance
4. Lodha Developers

PARTICULARS	RATES AS ON 2nd MARCH 2018	RATES AS ON 2nd MARCH 2018
REPO RATE	6%	6.50%
REVERSE REPO RATE	5.75%	6.25%
CRR	4%	4%
MSF	6.25%	6.75%
SLR	19.50%	19.50%
MCLR	7.70% - 7.95%	7.90% - 8.05%
CALL MONEY RATES (WEIGHTED AVERAGE)	5.93%	5.93%
91 DAYS TREASURY BILL (PRIMARY) YIELD	6.36%	6.8121%
364 DAYS TREASURY BILL (PRIMARY) YIELD	6.66%	7.3162%
10 YEARS GOVERNMENT SECURITIES YIELD	7.76%	7.868%
INR/USD (RS. PER FOREIGN CURRENCY)	65.23	70.12
INR/EURO (RS. PER FOREIGN CURRENCY)	79.50	81.06

Rise in prices, fall in rupee, control of money supply, liquidity in the market,US-China trade war, US interest rate trade cycle, high crude oil prices, high retail inflation, depreciating rupee is all the buzz words that we hear recently. Investments may move out of India if the fall in rupee continues to exist. The main reason for inflation would be rise in price of food and oil, which in turn is fashioned by the ongoing trade war. All these combined together affects the supply of money and commodities in the economy.

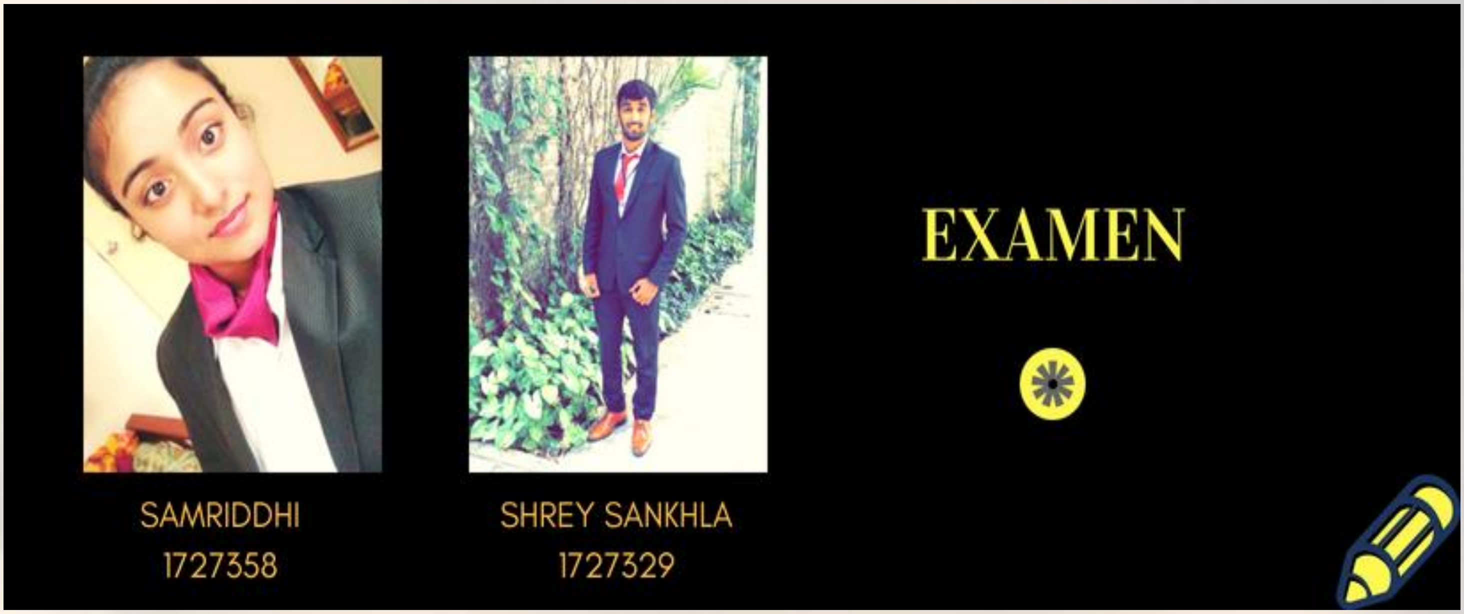
Every quarter there is a buzz about inflation. When we speak about inflation, something that has to be taken into consideration is ‘how to control it?’. The solution to this is given by Reserve Bank of India (RBI) wherein they impose higher interest rates to other banks in the event of shortfall of funds. So an increase in repo rate leads to lowering of inflation as it disincentives banks from borrowing from central banks. When there is excess money people tend to have more purchasing power which might cause a disequilibrium due to the less availability of commodities. This rises or inflates the prices of the goods. The solution is either the supply of goods or services should increase or supply of money should decrease. It would be a nightmare to increase the supply in the short run. So RBI comes to the rescue. They sell the secured securities to banks and other financial institution at reverse repo rate to squeeze out the excess liquidity thus balancing the demand and supply of goods and services in the market.

Low liquidity in market

Another scenario would be where the supply of goods and services is more as compared to money which will lead to decrease in the price of the available goods.Low price translates to low profit for the producer which impacts the overall growth of the company and thus economy. So RBI lend loans to bank at repo rate so that bank can finally lend it to the needy borrower.

How does it affect the stock market and investors?

Investing in equities can be very risky as compared to other investment. In case of a company, the estimated amount of future cash flow will drop when the company is less profitable either through higher debt expenses or less revenue. If enough companies experience declines in their stock prices, the whole market, or the key indexes many people equate with the market, will go down. With a lowered expectation in the growth and future cash flows of the company, investors will not get as much growth from stock price appreciation, making stock ownership undesirable. Interest Rates are very important tool for an economy. It determines country’s growth, its inflation, value of its currency, indirectly the level of employment and investments prospects in the countryin the form of DII, FII, FDI. India should be open to investments thus reducing prevailing interest rates taking into consideration the inflation in order to achieve an open economy. With continuous depreciation of Rupee in last few weeks, indicates the need to absorb liquidity in terms of Rupee to stabilize the currency.



1. India has chosen which country's Goods and Services Tax (GST) dual concept model?

A. USA

B. Brazil

C. Canada

D. France

2. Name the person who introduced the 'Double Entry' book keeping concept?

A. John Bogle

B. Fibbonaci

C. Piero Della Francesca

D. Luca Pacioli

3. Money Market is divided into how many types?

A. 2

B. 4

C. 3

D. 5

The minimum maturity period for Masala Bonds raised up to USD 50 million equivalent in INR per financial year should be_____years

A. 2 years

B. 4 years

C. 3 years

D. 5 years

E. None of these

4. An asset is tagged as non- performing when it ceases to generate income for the lender after how many days?

A. 100

B. 90

C. 200

D. 365

E. 150

5. In regression of capital asset pricing model, an intercept of excess returns is classified as

A. Sharpe's reward to variability ratio

B. tenor's reward to volatility ratio

C. Jensen's alpha

D. tenor's variance to volatility ratio

6. According to Black Scholes model, stocks with call option pays the

A. dividends

B. no dividends

C. current price

D. past price

7. Which country have only paper currency, no coins?

A. Vietnam

B. Switzerland

C. Austria

D. Nepal

8. Payment app i-tap is launched by which bank?

A.Axis Bank

B. State Bank of India

C.ICICI

D. Punjab national bank

9. Who is known as junk bonds king?

A. John Gutfreund

B. Michael R Milken

C. John Meriweather

D. Ivan Boesky

10. In Which year SLR was first imposed on bank?

A.1948

B.1949

C.1950

D.1951

11. Name the first Public Sector share quoted on the Bombay Stock Exchange

A. Hindustan Petroleum Corporation Ltd.

B. DreamGains Financials India Private Limited

C. Indian Telephone Industries (ITI)

D. Bharat Sanchar Nigam Limited (BSNL)

12. Which country experienced a massive economic bubble in 1980 followed by "lost decade" in 1990's?

A. South Korea

B. USA

C. Japan

D. Russia

13. Name the first women President of a Stock Exchange in India? She headed Cochin Stock Exchange.

A. ChitraRamkrishna

B. Deena Mehta

C. Stacey Cunningham

D. Omana Abraham

13. What is the inflation rate of India in July 2018?

A. 4.92%

B. 4.51%

C. 4.17%

D. 4%

14. Exports of auto components have grown by?

A. 14.3%

B.18%

C. 23.9%

D.16.8%

15. What was the budget allocated for MSME sector in FY 2018 by Union Cabinet?

A. Rs. 3794 cr.

B. Rs. 6581 cr.

C. Rs. 2241 cr.

D. Rs. 7543 cr.

16. SBI records the largest ever loss in its Quarter 4 of Rs._____

A. Rs.7718 cr.

B. Rs.3442 cr.

C. Rs.2038 cr.

D. Rs.5549 cr.

Answers:

C. Canada

D. Luca Pacioli

C. 3 (Money market is divided into- Call, Term and Notice Money)

C. 3

B. 90 days.

C. Jensen’s Alpha

B. No Dividends

A. Vietnam

C. ICICI

B. Michael R Milken

B. 1949

A. Hindustan Petroleum Corporation Ltd.

C. Japan

D. Omana Abraham

C. 4.17%

C. 23.9%

A. 3794 Cr.

A. 7718 Cr.

SWATHI D
1727166

WORD HUNT!

A	R	T	I	C	U	L	A	T	I	O	N	N	R	T	N	M	L	M	A
E	R	U	S	O	L	C	S	I	D	M	O	V	E	N	O	P	L	G	D
U	T	E	C	N	E	D	U	R	P	I	Y	S	V	E	I	P	I	Q	W
L	I	N	T	M	J	O	E	U	T	X	T	M	A	M	T	O	W	S	D
R	I	C	E	L	A	G	H	A	J	E	A	S	L	Y	I	R	D	B	N
T	I	Q	R	M	I	T	R	K	W	H	U	R	U	A	N	T	O	C	A
V	S	F	U	S	R	O	E	A	I	T	E	T	A	P	G	F	O	G	J
P	E	A	T	I	P	I	R	R	C	U	L	N	T	E	O	O	G	M	X
V	Y	R	C	R	D	D	A	E	I	U	N	W	I	R	C	L	W	G	Q
T	A	B	O	E	S	I	P	P	A	A	M	T	O	P	E	I	L	V	J

Your hunts…

A. INCORPORATION
B. DEFAULT
C. FORECAST
D. MERGER
E. REGISTRAR
F. PREPAYMENT
G. SUBSIDIARY
H. DERECOGNITION
I. GOODWILL
J. LIQUIDITY
K. NOMINAL
L. PROSPECTUS
M. REVALUATION
N. DISCLOSURE
O. STEWARDSHIP
P. ARTICULATION
Q. PRUDENCE
R. PORTFOLIO
S. MATERIALITY
T. IMPAIRMENT

TEAM NISHKA

"You educate a man; you educate a man. You educate a woman; you educate a generation."

FACULTY COORDINATOR

Prof. Krishna M.C

STUDENT COORDINATOR

Indushree

REVIEW & EDITING

Simran

Swathi

Samriddhi

Keerthana

LAYOUT, CREATIVE & DESIGN

Neema Jose