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MONEY $PEAKS

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CONTENTS

The Nirav Modi and PNB Scam

ASHLYN JOY

One of the biggest frauds in the banking history getting unnoticed till it reached a whopping figure of approximately Rs. 11,400 Crores. How did this not catch the attention of the government or any authorities till January 29? There are so many questions regarding this kind of scandal. Well, let's break it down and start from the beginning.

Nirav Modi the 'villain' of the story is the founder of Nirav Modi Global diamond jewelry house established in 2010. He along with others scammed Punjab National Bank (PNB) of over Rs. 11,400 Crores. He has presently fled the country. Now let's know why? Central Bureau of Investigation has registered a case against Nirav Modi, his brother Neeshal Modi and his uncle Mehul Choksi on February 13 2018. The bank earlier reported a scam of Rs.280 Crores but later realized that it was a shocking Rs. 11,400 Crores. That's a great deal of money!!!! How can anyone get away with such a magnitude of fraud and get unnoticed?

Nirav Modi is an importer of diamonds and importers take loans in foreign currencies because of lower interest rates. Modi then went to PNB and asked for buyer's credit which means a loan that is taken from overseas bank and guaranteed by PNB. In order to do this PNB had to issue a Letter of Undertaking (LoU) to an overseas bank. A LoU is a letter that guarantees an overseas bank that if it lends money for a specific period to a client identified by the home bank (PNB), then the home bank will assure that the money will be returned to the overseas bank. Note that the assurance is directly between the overseas bank and the home bank. So, the overseas bank gives the loan to the PNB and not directly to Nirav Modi.

PNB alleges that the money raised against the LoUs may not have been used to pay for imports but rather for some other purpose like money laundering. How did PNB issue so many LoUs? LoUs are generally given when the home bank has an approved line of credit for the client. As part of its due diligence PNB should have verified Nirav Modi's credit worthiness. The other way to establish liability would have been to ask Modi to present collateral equal to or greater than the loan amount requested. PNB did neither.

How did all this go unnoticed? In India all banking records are saved on the Core Banking System (CBS). Surprisingly, PNB didn't have this mechanism. When this technology has not been implemented the bank usually ensures that the CBS and SWIFT records are recorded manually. PNB didn't do this either. The bank claims that the rogue employees helped Modi with the LoU scam. But honestly it is hard to believe because SWIFT accounts go through a three-tier verification to create, check and authorize the transaction, so bank employees at different levels are composite in the fraud.

It is hard to believe that the top management of PNB would not be aware of huge loans being guaranteed without any collateral, PNB being the second largest public-sector bank of India. So PNB is not exactly a victim of fraud as it claims to be. So far over 10 employees have been suspended and at least four have been arrested.

Mutual Funds to Use Total Return Index to Benchmark Schemes

SHEEBA SHAJN

Funds Vs Benchmark

Category	Benchmark	Category Avg Retun	Price Return Index (Return)	Total Return Index (Return)	% Funds beating PRI	% Funds beating TRI
ELSS (Tax Saving)	Nifty 500	39.0%	35.9%	37.7%	66.7%	52.4%
Large Cap	S&P BSE 100	32.0%	31.5%	33.3%	44.8%	36.2%
Small & MidCap	Nifty Free Float Midcap 100	47.3%	47.3%	49.3%	35.7%	31.0%
Flexi Cap	Nifty 500	36.7%	35.9%	37.7%	59.0%	46.2%

Source: **Morningstar India;** Data for calendar year 2017

On Jan 9,2018 the Securities and Exchange Board of India (SEBI) has asked mutual fund houses to adopt total return index (TRI) to benchmark schemes. This will be in effect from February 1,2018. TRI is basically an index which will track both the capital gains of a scheme and assumes that any cash distribution, such as dividends, are reinvested back into the index. The new index is likely to present a tougher challenge for the Mutual fund industry. At present, most Mutual funds other than debt schemes are benchmarked to the price return index (PRI).PRI only captures capital gains of the index constituents but TRI is a more appropriate way for measuring the performance of financial products.

Looking at the Below table you can understand that the performance of various mutual fund schemes in 2017 has been barely beating the Total Return index. This is due to various reasons, impact of demonetization, GST etc. once the new benchmark becomes the TRI index the impact on mutual fund investors will be that the level of outperformance will reduce and, in some cases, it will become underperformance. many investors will now look at whether their schemes were actually outperforming the benchmark. They now need to evaluate whether they need these active funds or should they look at some passive funds or ETFs. Obviously, one should keep in mind the long-term performance of the fund while evaluating.

Mutual fund analysts say fund managers will be able to adapt better to the new benchmark over a longer period.

Mutual fund schemes	% of funds beating Total return index	% of funds beating Price return index
Large cap funds	36.2%	44.8%
Small and mid-cap funds	31%	35.7%
Multi cap funds	46.2%	59%
Tax saving funds	52.4%	66.7%
This data is according to Morningstar study of 220 equity schemes		

SBI jacks up bulk deposit rates

AISHWARYA SURESH & SNEL MUNDHE

The nation's largest lender State Bank of India had hiked interest rates on domestic bulk term deposits by as much as 140 basis points. This is the second hike in interest rates on bulk term deposits in a time span of two months, at a time when liquidity in system is strained.

The last increase in bulk term deposit interest rates by SBI was put into effect in November 2017, where it had increased the interest rates on deposits between Rs. 1crore and Rs. 10 crore by 100 basis points. This move came on the heels of 25 basis points reduction in interest rates on deposits under Rs. 1crore.

As per the sources the increase in bulk term deposits interest rates was done to realign rates as the competing banks were offering better interest rates on term deposits, and this hike will not have any significant impact on SBI's cost of funds as the portion of bulk deposits against total deposits with the bank is quite small.

Items	Tenor	New interest rate (p.a) revised w.e.f. 28.02.2018
Domestic Bulk term deposits	7 to 45 days	5.75%
Senior citizens on Domestic Bulk term deposits of Rs. 1 crore to 10 crores	7 to 45 days	6.25%
	46 days to 210 days	7.20%
	211 days to less than 3 years	7.25%
	3 years to less than 5 years	7.15%
	5 years to 10 years	6.75%

Source: www.sbi.co.in

With this hike, now bulk deposits with SBI will offer as much interest rate as the retail term deposits. Interest rates on retail term deposits have been kept unchanged. These recent tweaks in interest rates are reflections of tightening liquidity as they bridge the gap between retail and bulk term deposits.

Budget 2018: "A Profarmer One"

EVANGALINE JANET

Agriculture sector in India is considered to be the backbone of its economy. Worldwide India ranks second in farm output. Over 58 % of the rural households depend on agriculture as their principal means of livelihood. In Union budget 2018, the agriculture sector was the top priority for the government. This is because the country's growth was not justifiable and equitable in the farm sector. The Finance Minister said that Government has taken up programs to direct the benefits of structural changes and good growth to reach farmers, poor and other vulnerable sections of our society and to uplift the under-developed regions. Ensuring the benefits reaches the Agri-sector, Government has made certain provisions. They are

- To keep MSP for all unannounced kharif crops at least one and half times of their production cost.
- To increase the volume of institutional credit for agriculture sector to Rs.11 lakh crore for the year 2018-19 from Rs.10 Lakh crore in 2017-18
- To develop and upgrade existing 22,000 rural haats into Gramin Agricultural Markets (Grams) to take care of the interests of more than 86% small and marginal farmers.
- Pradhan Mantri Kisan Sampada Yojna has been revised from Rs.715 crore in 2017-18 to Rs. 1,400 crores in 2018-19.
- To facilitate farmers for installing solar water pumps to irrigate their fields.
- To provide Free LPG connection to poor under Ujjwala scheme raised to 8 crores from 5 crore and free electricity connections provided to 4 crore poor households.
- To provide mason training to 5 Lakh persons by 2022, in order to impart new skills to people in rural areas,

Overall the budget 2018 is a balance between fiscal, economic prudence and populism. Also, the Agri reforms introduced will work towards improvement of rural incomes. Companies in the Agri input, seeds, crop protection, Agri feed, logistics, cold storages, food processing, Aqua culture and Agri equipment segment stand to benefit directly in the near term.

Union Budget 2018: Major changes under Direct Taxation

RILVY ELAVATHINGAL

In the Union budget 2018, our Finance Minister Mr. Arun Jaitley has proposed to introduce a 4% Health and Education Cess. At present, there is a 3% cess on personal income tax and corporation tax, which consists of 2% cess for primary education and 1% cess for secondary and higher education. This measure will push up the overall tax of high-income taxpayers. It will increase the tax liability of both individuals and corporates. The excess revenue from this will help the government to take care of the healthcare and education needs of below poverty line and rural families.

The Government proposed to provide a standard deduction of Rs. 40,000 from salary income to employees. This will come into effect from 1st April 2018. This additional deduction has been proposed in lieu of existing deductions for medical reimbursement and transport allowance. Standard deduction was earlier available for salaried individuals but it was removed with effect from Assessment Year 2006-07. The introduction of standard deduction is said to benefit 2.5 crore taxpayers and also reduce paperwork.

Proposed Deduction	**Rs. 40,000**
Existing Deductions [Medical Expense (Rs.15000) +Transport Allowance(Rs.19200)]	Rs. 34,200
Net Benefit	Rs. 5,800

The net benefit of Rs. 5,800 would not provide a benefit of even 20%. With the levy of 1% additional cess, this deduction will result in higher tax liability for certain classes of employees. Hence, the impact of this provision is negligible.

Another key proposal was reduction in corporate income tax rates. The Government proposed to reduce the corporate income tax rate from 30% to 25% for companies having a turnover not exceeding Rs.250 crore during the financial year 2017-18. This measure will provide relief to the Micro, Small and Medium Enterprises (MSME). This will benefit MSMEs which makes up about 99% of companies filing their tax returns. The lower corporate income tax will provide these MSMEs with investible surplus. The companies can reinvest this surplus and grow their businesses further. This, in turn, will create employment opportunities.

Year	Turnover or Gross Receipt	Tax Rate
FY 2016-2017	Annual turnover or gross receipt of less than Rs.50 crore	Revised to 25% in Budget 2017 from 30%
FY 2017 - 2018	Annual turnover or gross receipt not exceeding Rs.250 crore	Revised to 25% in Budget 2018 from 30%

Overall, the budget 2018 has not been favorable for salaried individuals, however, it has provided great benefits to MSMEs and pensioners.

Shrinking footprints of foreign banks in India

AACHAL PAL

In India the number of foreign banks is decreasing and becoming more conservative as compared to private and public-sector banks.
According to the data from the RBI, the number of foreign banks reduced from 46 to 44 last year, and the number of branches was down from 325 to 295 in the same period. For example, the HSBC bank downsized the number of branches from 50 to 26. Some of the banks have also started to sell their business in India as part of their global strategy.

One of the reason for this reduction in the banks can be their low performing business in India. As per RBI data foreign banks' combined loan book shrunk nearly 10% to Rs.3.42 trillion in fiscal 2016-2017 from Rs.3.78 trillion in fiscal 2015-2016. And also, despite the rush of deposits after demonetization, foreign banks' deposit grew only 1.4% against industry growth of 11.8%.

Another reason for shrink is, not matching up with technology. With technology advancing rapidly the need for branches is declining and are unable to meet customer demand.

Foreign banks are also not willing to open new branches and expand their business. The major reason of not expanding their business in India is by 2019, all foreign banks have to give 40% of their loans to the priority sector, at par with locally incorporated lenders. The main priority sectors of India are Agriculture, Small scale industry, micro credit, education loans etc.

A bank's shareholding has to be diversified in India, and no individual shareholder can hold more than 10%. There are foreign banks present in India with only a few branches, focused on providing cross-border services to corporate clients. But in other markets, these banks have extensive retail networks.

Now, foreign banks are focusing on their traditional core strengths which includes providing advisory for mergers, or in global fund raising, large lending to corporate groups. Most of the revenue for foreign banks come from investment and fee income. After the credit crisis, foreign banks decided to scale down their operations everywhere for want of capital. Retail operations also shrunk as a result, which got taken over by private sector competitors.

Can FDI save Air India?

AMEYA CHAVAN

In spite of being the largest international carrier, Air India is facing lots of problems because of its mountain of debt. This debt has been slowly killing Air India. The airline has a debt of Rs. 46,000 Crore, which has been accumulated over the years. A part of Air India's debt was taken for expanding its fleet (Rs. 14,000 Core are towards aircraft loans), and the rest were primarily working capital loans to sustain day-to-day operations. Today, interest expense for Air India is around Rs. 4,000 Core a year.

Air India a government-owned enterprise, operates a fleet of Airbus and Boeing aircrafts serving 90 domestic and international destinations. Air India is the largest international carrier with an 18.6% market share & third largest domestic airline of India in terms of passengers carried (after IndiGo and Jet Airways) with a market share of 13.5% as of July 2017.

It's been months since the government proposed to sell a part of Air India to private investors to rescue it from going bankrupt, but the response to the proposal has been lukewarm. Thus, the government has decided & allowed up to 49 % Foreign Direct Investment (FDI) in Air India. The airline turns out to be the worst performer among public sector enterprises. As of June 2017, the erstwhile Maharaja of Indian skies had bled a massive Rs. 52,000 Core of taxpayers' money. High time for the government to finally wake up and bite the bullet.

However, there has been only one formal expression of interest for Air India so far and it has come from IndiGo. The Tatas have also said they are evaluating a deal but there has not been any formal letter to the government on this so far. Aviation experts say that FDI reform was long overdue and there is no reason why Air India should be treated differently from other domestic carriers. Opening the FDI gates helps other airlines such as Jet Airways and Vistara to also bid for Air India. With more carriers joining in the bid, the government would be able to bring in better competition among Air India bidders and possibly get a better price for the airline.

However, all these scenarios hinge on bringing in more clarity regarding the airline's debt burden. Such clarity should ultimately help bring in the right investor into Air India and give some ray of hope to the beleaguered carrier.

CORPORATE BLOG

OLA SUCCESS STORY

SURABHI JOSHI

Journey of Ola

Olacabs is the brain child of Bhavish Aggarwal. Bhavish has done his B Tech in Computer Science from IIT Bombay. Before starting his business of Ola Cabs, he was in an online Holiday & Tour Planning service business. While running his previous business, Bhavish had to travel to Bandipur. For this reason, he rented a car, which proved to be a bad experience. In the middle of the journey the car driver stopped the car and started renegotiating for more money of what Bhavish was paying. After being refused to pay he proceeded to abandon him en route the destination. At this point of time Bhavish realized how his plight was probably similar to many customers across the country who were looking for a quality cab service.

This was the time when he saw much potential in an online cab booking service, which is popularly known as **OLA CABS**. Later in December 2010, he was joined by his Co-founder Ankit Bhati in his Ola journey. Initially his parents were against his decision, but when they got their first investment from two angel investors his parents started believing in his dream to bring change. Instead of buying and renting its own cars, Ola partnered with many taxi drivers and sprinkled some magic of modern technology whereby people could book the cabs through an app, which is very hassle free.

Growth of Ola

Today, Ola has more than 400 employees. It also has variety of car options like Mini, Micro, Prime and Luxury according to the preference of the customers. Olacabs has around 40, 00,000 cabs across the country. The taxi drivers can also opt for the access to technology platform benefits, by paying a minimal fee to OlaCabs.

Innovation

Ola allowed various types of services to people like half/full outstation taxi service, rentals and so on. “Ola Share” service has raised the business to a great extent leaving behind its competitors. Recently, Ola has collaborated with autos to start its new venture called as “Ola autos”.

Ola has raised about $1.38 billion from 20 investors. Some of them are Soft Bank Corp, ABG Capital, Mauritius Investments, Tiger Global Management and many more.

Bhavish who works 16 hours a day, promises transparency in prices. OlaCabs gets a commission on every sale that the taxi driver makes, this enables the company to follow pay-per-performance model. Bhavish believes that the best and safest business model is running a business with owning a “zero” inventory. Bhavish’s and Ankit’s startup journey was full of hurdles but they learnt from their hardships and discovered their dream.

Life doesn’t always bestow you with second chances, so pull up yours sock and start your journey to discover your dreams.

PERSONALITY: Shantanu Narayen

AKHIL SARWATE

Shantanu Narayen is the president and chief executive officer of Adobe System Inc. having a net worth asset of US$4.06 billion software pioneering outfit, with a vastly diversified product portfolio.

Early life & career

Mr. Narayen grew up in Hyderabad where his father was an entrepreneur in the field of plastics, while his mother an American literate. He was schooled at Hyderabad Public School.

Initially he wanted to become journalist but in deference to his parents' wishes, he took a degree in electrical engineering from Osmania University in Hyderabad. Later, he obtained his Masters in computer science from Bowling Green state university and MBA from Haas school of Business at the University of California, Berkeley in 1993.

Mr. Narayen started his career at Apple Inc. He served in several management positions at Apple before doing a stint at silicon Graphics.Inc, as director of desktop and collaboration products.

At Adobe

In 2002, Mr. Narayen was in charge of engineering in Adobe; due to his efforts, business software sales climbed drastically up by 42% in 2003. Mr. Chizen, then CEO of Adobe was suitably impressed: "He was always pushing me, but behind the scenes". Impressing everyone with his remarkable zeal and quality of work, Mr. Narayan was promoted to President and Chief Operating Officer in January 2005

Making a difference

Possibly the single most important development since Mr. Narayen took over the reins in Adobe's entry into the online advertising business. Recognizing that the market for "rich media advertising" (including video, animation and other embedded ads) is set to explode in the near future. He landed deals with major media houses such as CBS, Viacom, and PBS to play their shows over the Adobe Media Player. This plays like a digital video recorder, with pause, rewind and save functions for easy playback. Ads played alongside these shows, on the Adobe Media Player, fetched Adobe a healthy 5% to 20% of the advertising revenue. Mr. Narayen predicted that within 4 years, the ads revenue could contribute up to 15 % of his total revenue. With millions of Adobe Flash users being constantly prompted to download the Media player, Mr. Narayen is virtually changing the face of the web.

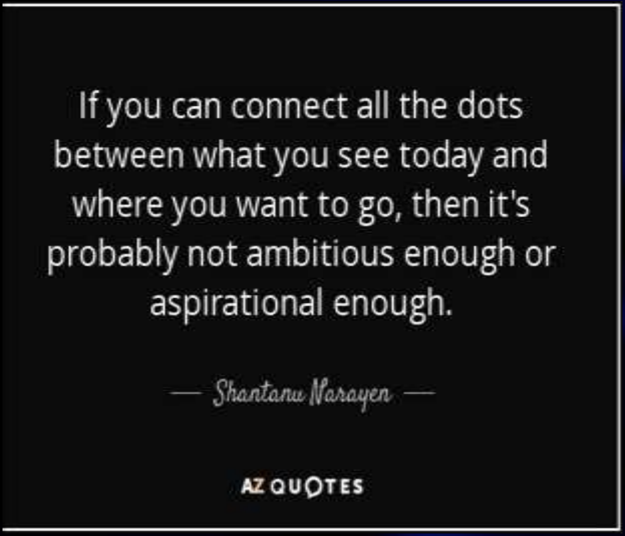
Battling recession

Forbes Magazine recognized Mr. Narayen's accomplishment by ranking him 16th in its list of "25 Top Gun CEO", for 2009 who kept their companies thriving despite the deep recession and in the same year. Mr. Narayen led the U. S$1.8 billion acquisition of Omniture, Inc., expanding Adobe's ability to help customers measure and optimize the value of online experiences, content and applications.

Personality to emulate

Mr. Narayen hold 5 patents and is frequent speaker at various industry and academic events.

In 2011, the U.S President Barack Obama appointed him as a member of his Management Advisory Board. He has formerly served on the Board of Dell, Inc and Metavante Technologies, Inc. He also serves on the Board of Pfizer, Inc. and the Advisory board of the Haas School of Business, University of California at Berkeley, and is a president of the board of the Adobe Foundation, which funds philanthropic initiatives around the world. Despite his obvious accomplishments, Shantanu Narayen, who is deeply passionate about technology, remains a modest, down to earth person who loves golf and his Labrador dogs.



FINANCIAL TERMINOLOGIES

Invoice financing is a form of short term borrowing which is extended by the bank or a lender to its customers based on unpaid invoices. Invoice financing is often carried out to meet short-term liquidity needs of the company.

QIP or Qualified Institutional Placement is largely a fund-raising tool for the listed companies. QIP is a process which was introduced by SEBI so as to enable the listed companies to raise finance through the issue of securities to qualified institutional buyers (QIBs).

Crowding Out Effect': A situation when increased interest rates lead to a reduction in private investment spending such that it dampens the initial increase of total investment spending is called crowding out effect.

Seigniorage is the difference between the value of currency/money and the cost of producing it. It is essentially the profit earned by the government by printing currency.

Value at risk (VaR) is a statistical technique used to measure and quantify the level of financial risk within a firm or investment portfolio over a specific time frame.

Human Development Index (HDI) is a statistical tool used to measure a country's overall achievement in its social and economic dimensions. The social and economic dimensions of a country are based on the health of people, their level of education attainment and their standard of living.

Multibagger Stocks that give returns that are several times their costs are called multibaggers. These are essentially stocks that are undervalued and have strong fundamentals, thus presenting themselves as great investment options. Multibagger stock companies are strong on corporate governance and have businesses that are scalable within a short span of time.

Delisting involves removal of listed securities of a company from a stock exchange where it is traded on a permanent basis. It can be done either on voluntary decision of the company or forcibly done by SEBI on account of some wrong doing by the company.

Gap analysis seeks to define the current state of a company or organization and the target state of the same company or organization.
Through this, a business management team can create an action plan to move the organization forward and fill the gaps in performance.

Financial Quiz

1. The non-government organization that researches and develops new accounting standards is the ________
a AICPA
b FASB
c IRS
d SEC

2. 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

3. who was the first governor of Reserve Bank of India(RBI)?
a James Braid Taylor
b Harvey Adamson
c Osborne Smith
d Lancelot Graham

4. Which state is called the 'Cradle of Banking' in India, as seven leading banks of India have originated from this state?
a Gujarat
b Maharashtra
c West Bengal
d Karnataka

5. Which among the following is world's fastest stock exchange with a median trade speed of 6 microseconds?
a New York stock exchange
b London stock exchange
c Bombay stock exchange
d Tokyo stock exchange

6. Infusion of liquidity, by RBI, is done through_____to banks under a_____transaction.
a Borrowing, repo
b Borrowing, reverse repo
c Lending, repo
d Lending, reverse repo

7. In which year was SEBI (the securities and exchange board of India) established?
a 1988
b 1990
c 1978
d 1991

8. At which rate the RBI lends money to a public-sector bank on a long-term basis?
a Repo rate
b Reverse repo rate
c Cash reserve ratio
d Bank rate

9. OMO (Open Market Operation) is a tool used to control supply of money by purchasing or selling government securities in the open market. It is regulated by
a Government of India
b RBI
c World bank
d IBRD

10. In 3 years you are to receive $5,000. If the interest rate were to suddenly increase, the present value of that future amount to you would
a Fall
b Rise
c Remain unchanged
d Cannot be determined

1-b 2-b 3-c 4-d 5-c 6-c 7-a 8-d 9-b 10-a

IT'S ALL ABOUT THE NUMBERS

RBI rates	%	As on
Policy repo rate	6.00	5 March'18
Reverse Repo Rate	5.75	5 March'18
Marginal Standing Facility Rates	6.25	5 March'18
Bank Rate	6.25	5 March'18
CRR	4.00	5 March'18
SLR	19.50	5 March'18
Base Rate	8.65 – 9.45	5 March'18
MCLR(Overnight)	7.65 – 7.80	5 March'18
Savings Deposit Rate	3.50 – 4.00	5 March'18
Term Deposit Rate(>1year)	6.25 – 6.75	5 March'18

GOVERNMENT SECURITIES MARKET		
6.79% GS 2027 :7.9451%		
91-day T bill	6.3563%	As on 5 March'18
182-day T bill	6.5014%	
364-day T bill	6.6622%	

SHARE MARKET		
BSE	33746.78	5 March'18
NIFTY 50	10358.85	5 March'18

RBI EXCHANGE RATES		As on
INR / 1 USD	65.0530	5 March'18
INR / 1 Euro	80.0347	
INR / 100 Jap. YEN	61.6400	
INR / 1 Pound Sterling	89.6951	

COMMODITYMARKET		
Crude Oil (WTI)	$61.25	**As on 5 March'18**
Brent Crude	$64.37	
Gold (per 10gm)	Rs. 31,828.9	
Silver (1kg)	Rs. 41,700	

KEY ECONOMIC INDICATORS		
Index of Industrial Production (IIP)	132.3	Jan '18
% change in IIP (Y-o-y)	7.47	Jan' 18 over Jan' 17
Consumer Price Index (CPI)	136.4	Feb' 18
% change in CPI (Y-o-y)	4.44	Feb' 18 over Feb' 17
Wholesale Price Index (WPI)	115.8	Feb' 18
% change in WPI (Y-o-y)	2.48	Feb' 18 over Feb' 17
GDP(Y-o-y)	6.7%	Q3 FY 18 OVER Q3 Y 17