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FR. AGNELS BUSINESS SCHOOL

HDFC, Max group merge life insurance

HDFC Chairman Deepak Parekh and Max Group Chairman Analjit Singh announced a deal merging their life insurance businesses to form India's largest listed life insurance company with an estimated market value of Rs 67,000 crore.

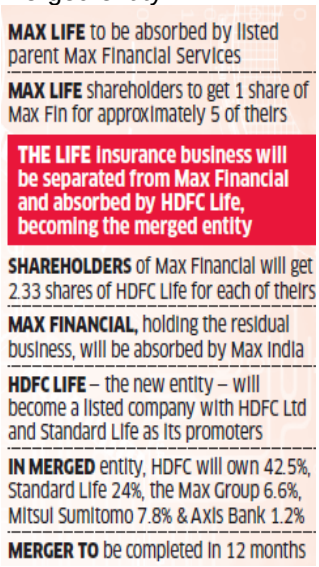
It will be the largest listed life insurance company in India. It is expected to take 12 to 15 months to complete this merger.

According to sources, this deal was approved on 8th August 2016.

The MAX promoter group would be paid a non-compete fee of Rs 850 crore over a span of 4 years.

The name of the new entity is HDFC life.

HDFC Life CEO Amitabh Chaudhry will head the merged entity.



July CPI highest in two years

The Consumer Price Index (CPI) figures of July were released in last month which turned out to be the highest in the past two years. CPI inflation for the month of July rose to a 2 year high of 6.07% versus 5.77% in May. Food Price Inflation rose to 8.35% versus 7.79% in May. Both rural and urban inflation rose to 6.66% and 5.39% from 6.29% and 5.26% respectively. Vegetable inflation declined marginally to 14.06% versus 14.74% in June, but pulses inflation rose to 27.53% versus 26.86%. Housing inflation dipped to 5.42% versus 5.46% and clothing, footwear inflation rose to 5.23% versus 5.01%. Fuel, light inflation came in at 2.75% versus 2.92% in June.

RBI Governor Raghuram Rajan in his last monetary review said that, the recent increase in food prices are sharper than anticipated. This has pushed up the projected trajectory of inflation over the rest of the year.

"Watch your finance like a hawk – H Johnson Brown Jr."

ICICI Bank, Apollo India to start Asset Reconstruction Company

ICICI Bank Ltd, India's largest private sector bank signed a memorandum of understanding (MoU) with Apollo India Credit Opportunity Management LIC and AION Capital Management Ltd on Monday to launch an asset reconstruction company (ARC), expanding its presence in the distressed assets segment in India. The objective of the collaboration will be to streamline the operations of borrowers, facilitate deleveraging and arrange additional funding on a case-by-case basis. This initiative will seek to revitalize distressed assets and maximize their economic value.

This is not the first stressed asset venture for ICICI Bank. The bank already has 13.26% stake in Asset Reconstruction Company of India Ltd (Arcil), the country's oldest ARC.

An Asset Reconstruction Company (ARC) is a company that is set up to do exactly what the name suggests — reconstruct or re-package assets to make them more saleable. The assets in question here are loans from banks, card companies, financial institutions etc.

Goods and Service Tax in India

The Goods and Services Tax Bill or GST Bill, officially known as The Constitution (One Hundred and Twenty-Second Amendment) Bill, 2014, proposes a national Value added Tax to be implemented in India from 1 April 2017.

"Goods and Services Tax" would be a comprehensive indirect tax on manufacture, sale and consumption of goods and services throughout India, to replace taxes levied by the central and state governments. GST would be levied and collected at each stage of sale or purchase of goods or services based on the input tax credit method. Here taxable goods and services would not be distinguished from one another and would be taxed at a single rate in a supply chain till the goods or services reach the consumer. Administrative responsibility would generally rest with a single authority to levy tax on goods & services. Exports would be zero-rated and imports would be levied the same taxes as domestic goods and services adhering to the destination principle.

Prohibition, GST exclusion shave $4 billion off liquor firm's m-cap

Nearly a dozen listed liquor companies in India have lost almost $4 billion, or a third of their market capitalization, over the past year as their shares fell following a consistent decline in sales growth, prohibition in few states and exclusion of the segment from the GST ambit. Since last 2 years liquor prices went up by 20% due to taxes. Alcohol is either completely or phase by phase banned in the states of Kerala, Bihar &Tamil Nadu which accounted to nearly 20% share of India's total alcohol consumption. According to report by Moody's there will hardly be any significant improvement in the operating margins of the liquor companies due to unfavorable regulatory environment.

BREXIT – Economic Impact

Brexit is the potential forthcoming withdrawal of the United Kingdom from the European Union. In the June 2016 referendum, 52% voted to leave the EU, leading into a complex separation process implying political and economic changes for the UK and other countries. The term "Brexit" was a combination of the words "British" and "exit". The International Monetary Fund (IMF) forecasted that the world economic growth would reduce by 0.1% following the referendum, and greater reductions in UK economic growth. On 24 June 2016, the bond and credit rating agency of Moody's, on the basis of the result of the referendum, downgraded the UK's standing as a long-term debt issuer and the country's debt rating outlook from "stable" to "negative." On 15 July 2016, Reuters reported that the value of UK funds' assets under management has dropped by more than $40 billion or 8.2 percent "in the three weeks since Britain's vote to leave the EU", primarily due to the devaluation of the pound according to the EPFR (Emerging Portfolio Fund Research). Before the referendum, leading figures with a range of opinions regarding Scottish independence suggested that in the event the UK as a whole voted to leave the EU but Scotland as a whole voted to remain, a second Scottish independence referendum might be precipitated.

Post BREXIT measure taken by Great Britain

The Bank of England slashed interest rates on August 4th to a record low 0.25 per cent and announced a vast stimulus package to combat economic fallout from Britain's looming EU exit. Policymakers voted unanimously to reduce rates by a quarter-point, the bank said in a statement after its latest meeting, cutting borrowing costs for the first time in more than seven years. The BoE expects to trim rates again later this year to just above zero, it signaled in a statement after its monetary policy meeting. The central bank also delivered a ($227-billion, 200-billion-euro) stimulus package, which it added could be expanded further. As part of the stimulus package, the BoE's Monetary Policy Committee also agreed to re-activate its quantitative easing (QE) bond-buying scheme, lifting it by £60 billion to £435 billion in the first increase since 2012 It was marked the first rate reduction since March 2009, when the bank cut to the previous historic low of 0.50 per cent — and launched the radical QE policy to stimulate lending and growth during the global financial crisis. The BoE will also buy £10 billion of corporate debt, while it also unveiled a new scheme worth up to £100 billion to encourage banks to lend to households and businesses. That took the total stimulus to as much as £170 billion.

"Economically considered, war and revolution are always business."- Ludwig Mises

Good news for mid-cap shareholders

Since the beginning of the financial year midcap stocks are on a 'high'. This is because 22 stocks have surged over 50%, from 1st of January till the end of August.

The list includes stocks such as Manappuram Finance which soared the most i.e. 133.72%, followed by Indian Bank (up 114.21%), Edelweiss Financial Services (up 97.41%) & Motilal Oswal Financial Services (up 88.74%).

In the banking space Karnataka Bank, State Bank of Mysore, The Federal Bank & DCB Bank rallied 45.32%, 43.63%, 43.20% & 42.94% respectively from April 1 till end of August. According to G. Chokkalingam, founder Equinomics Research & Advisory, there is a valuation bubble in selected mid-cap space now & going forward profit booking will be seen.

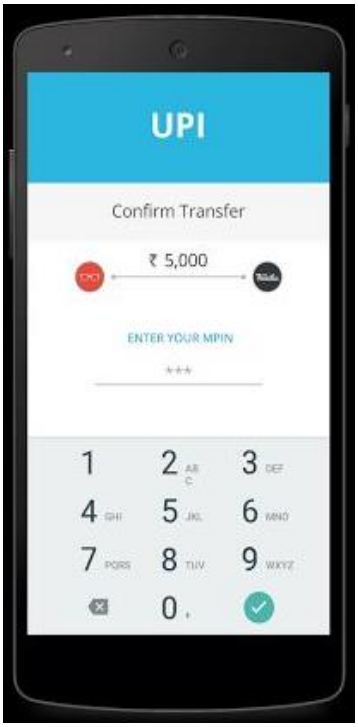
Sovereign gold bonds now eligible for trading

The Reserve Bank in a statement released on August 26 said that the sovereign gold bonds issued in February & March held in dematerialized form are eligible to trade in the stock exchanges from August 29 2016 onwards. So far 4 traches of bonds have been issued. The government is likely to issue the fifth tranche next month.
In October 2015, the Finance Ministry had announced that the bonds will carry an interest rate of 2.75% (fixed rate) on the initial investment. Interest payment will be half yearly & the last interest will be payable on maturity, along with the principal.
An alternative to buying physical gold, the gold bond scheme offers investors a choice to buy bonds worth between 2-5 grams of gold. Bond's tenure is 8 years with an exit option from 5th year to be exercised on interest payment date.

Rating firms shares rally due to new RBI norms

In the month of August Reserve Bank of India imposed a risk weightage of 150% for unrated banks with exposure above Rs 200 cr. As a result, shares of credit rating agencies such as Crisil, Credit Analysis and Research (CARE) and ICRA surged. According to market experts the new RBI norm will increase the use of credit rating agencies in future.
The central bank on 25th August also announced a package of measures for the development of fixed income and currency markets. The measures are intended to push market development, enhance participation, facilitate greater market liquidity and improve communication.
According to Naresh Takkar, MD and CEO, ICRA, the RBI measures are positive from a market development point of view.

New era of online payment dawns



On 22nd August, the National Payments Corporation of India (NPCI) launched the much awaited Unified Payments Interface (UPI). It's being hailed by many as one of the biggest changes to take place in the financial sector, but what is the UPI, and what does it mean to you?

The UPI is a system for instant, online bank payments.

To send money to someone, you need to know only their UPI ID - a virtual identity like an email address. This could be your name, or your phone number, so for example, if your phone number is 1234567890, then your virtual address could be 1234567890@sbi (if your bank is SBI) or 1234567890@axis (if you're an Axis bank customer and so on.

UPI eliminates the need of knowing the recipient's name, their bank account number, and IFSC code (or bank branch).

UPI is built on top of the IMPS, which you may have used to transfer money between bank account. Like IMPS, UPI is immediate, and works 24x7, through the year, unlike NEFT or RTGS services, which have specific working hours.

The UPI can also be used for shopping online - instead of entering your debit card number, expiry date, and CVV code, followed by waiting for the OTP, you'd just enter your UPI ID, and get an alert on your phone to verify the transaction.

Because it's using the phone to verify transactions, UPI is secure - someone else can't just enter your ID and spending our money.

Anyone can also use the UPI to send a request for money, like an invoice. This means that anyone could become a merchant, and take payment for any goods or services from your account to their account.

According to AP Hota, MD and CEO NPCI, 29 banks have already agreed to provide UPI services, and he expects the number to increase further this year.

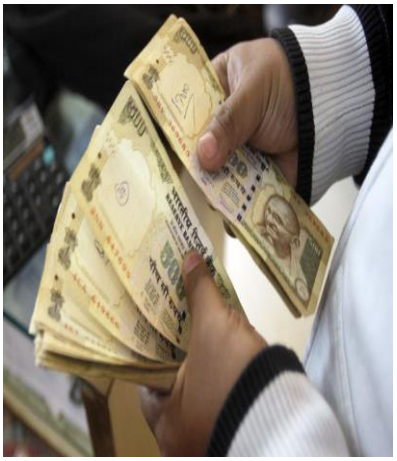
"Our focus is in line with RBI's vision of migrating towards a 'less-cash' and more digital society," Hota added.

"UPI will make payment systems fully interoperable across all players without having silos and closed systems by enabling one-click for two-factor authentication," said Vivek Belgavi, Leader Financial Services Technology PwC India.

Too wealthy to tax!

With the latest India Wealth Report putting the wealth of 236,000 high net worth individuals in 2015 at $1.5 trillion and the number of these individuals has risen 55% in the last eight years the country figures among the 10 wealthiest in the world, 7th to be exact. But the tax-to-GDP ratio of India is remarkably low. Only 3.3% of the population pays taxes as compared to 46% in the USA. This shows that the tax system is more of a sieve. The low level of income is to blame here but there is enough evidence to prove that many people in high income group i.e. 10 lacs to 5 cr, under declare their income. As a result of this under-declaration, between individuals and corporates, the declared income in that year equaled a mere 23% of the country's GDP. Since all the wealth eventually gets reflected in consumption, a lot of the data which is sent to the taxman in the form of annual information return (AIR) from automobile firms, jewelers, travel agents and credit card companies among others, a proper cross – referencing of this with tax returns will allow the taxman to capture a lot more income. A sharp rise in the number of billionaires suggests a dynamic economy, but only if this is not coming from cronyism 'bad' billionaires are defined as coming from industries like mining and real estate. Between 2010 and 2015, 'good' billionaires from tech, pharma & telecom saw their fortunes rising from 22% points to 53% of total billionaire wealth, which automatically means more taxes.

FINANCIAL TERMINOLOGY



Knock Out Option - A knock-out option is an option with a built-in mechanism to expire worthless if a specified price level is exceeded. A knock-out option sets a cap to the level an option can reach in the holder's favor. As knock-out options limit the profit potential for the option buyer, they can be purchased for a smaller premium than an equivalent option without a knock-out stipulation.

Front Running - Front running is the unethical practice of a broker trading an equity in his personal account based on advanced knowledge of pending orders from the brokerage firm or from clients, allowing him to profit from the knowledge. It can also occur when a broker buys shares in his personal account ahead of a strong buy recommendation that the brokerage firm is going to make to its clients.

Bond Washing - The practice of selling a bond just before it pays a coupon payment and then buying it back once the coupon has been paid. Bond washing results in a tax-free capital gains because after the coupon has been paid, the bond will sell for less.

Sovereign Debt - also referred to as government debt, public debt, and national debt - is a central government's debt. Sovereign debt is issued by the national government in a foreign currency in order to finance the issuing country's growth and development. The stability of the issuing government can be provided by the country's sovereign credit ratings which help investors weigh risks when assessing sovereign debt investment provide specialized information to a targeted audience.

"You don't want to have so much money going toward your mortgage every month that you can't enjoy life or take care of your other financial responsibilities" – Dave Ramsey.

Mercantilism – It was the main economic system of trade used during the 16th to 18th centuries. The goal was to increase a nation's wealth by imposing government regulation that oversaw all of the nation's commercial interests. It was believed national strength could be maximized by limiting imports via tariffs and maximizing exports.

Wounding Up –It is a process of selling all the assets of a business, paying off creditors, distributing any remaining assets to the principals or parent c dissolving the business. Winding up can refer to such a process either for a specific business line of a corporation or to the dissolution of a corporation itself.

OUR INSPIRATION

RAGHURAM RAJAN

Raghuram Govind Rajan is an Indian economist, currently serving as the 23rd Governor of the Reserve Bank of India, and as the Vice-Chairman of the Bank for International Settlements. He was chief economist at the International Monetary Fund from 2003 to 2007, the youngest to occupy the position. He was a Distinguished Service Professor of Finance at the University Of Chicago Booth School Of Business from 1991 to 2013, when he went on public service leave.

At the Federal Reserve annual Jackson Hole conference in 2005, Rajan warned about the growing risks in the financial system and proposed policies that would reduce such risks. Former U.S. Treasury Secretary Lawrence Summers called the warnings “misguided” and Rajan himself a "luddite" However, following the 2008 economic crisis, Rajan's views came to be seen as prescient and was extensively interviewed for the Oscar-winning documentary Inside Job. In 2003 Rajan received the inaugural Fischer Black Prize, given every two years by the American Finance Association to the financial economist younger than 40 who has made the most significant contribution to the theory and practice of finance. His book, Fault Lines: How Hidden Fractures Still Threaten the World Economy, won the Financial Times/Goldman Sachs Business Book of the Year award in 2010. In 2016, he was named by Time (magazine) in its list of the ‘100 Most Influential People in the World’. He has won awards/recognition as one of the best central bank governors worldwide.

RAGHURAM RAJAN

GEORGE SOROS

George Soros is a Hungarian-American business magnate, investor, philanthropist, political activist, and author who is of Hungarian-Jewish ancestry and holds dual citizenship (Hungary and the United States)

He is chairman of Soros Fund Management. He is known as "**The Man Who Broke the Bank of England**" because of his short sale of US$10 billion worth of pounds, making him a profit of $1 billion during the 1992 Black Wednesday UK currency crisis. Soros is one of the 30 richest people in the world.

He played a significant role in the peaceful transition from communism to capitalism in Eastern Europe (1984–89) and provided one of Europe's largest higher education endowments to the Central European University in Budapest. Soros is also the chairman of the Open Society Foundations.

“A budget tells us what we can't afford, but it doesn't keep us from buying.”- William Feather.”

IT'S ALL ABOUT THE NUMBER$

RBI RATES	%	As on
Policy Repo Rate	6.5	31st Aug '16
Reverse Repo Rate	6	31st Aug '16
Marginal Standing Facility Rates	7	31st Aug '16
Bank Rate	7	31st Aug '16
CRR	4	31st Aug '16
SLR	21	31st Aug '16
Base Rate	9.3 - 9.7	31st Aug '16
MCLR(Overnight)	8.85 – 9.15	31st Aug '16
Savings Deposit Rate	4	31st Aug '16
Term Deposit Rate(>1year)	7-7.5	31st Aug '16

GOVERNMENT SECURITIES MARKET		
7.72% GS 2025 : 7.1340%		*Cut off at the last auction.
91 Day T-bills	6.5634*	
182 Day T-bills	6.6725*	
364 Day T-bills	6.6736*	

KEY ECONOMIC INDICATORS		
IIP	2.1	June '16
Consumer Price Index	6.07	July '16
Wholesale Price Index	3.55	July '16
GDP(y-o-y)	7.9	1st Q '16

SHARE MARKET		
BSE	28343	31st Aug '16
NIFTY 50	8784	31st Aug '16
TOP GAINERS (1M BSE)		
TOP LOSERS(1M BSE)		

Commodity As on 31st Aug '16	
Crude Oil(WTI)	46.38
Brent Crude	48.42
Gold (per 10 gm)	31561
Silver (1kg)	45490