THE FINANCIAL BUG

From the Editor's desk

The Financial BUG, a newsletter prepared by the BFM students is an initiative which helps to disseminate information about important news and events which affect the economy of our country. The aim is to inculcate a practical understanding of our learning's.
The newsletter contains different segments or sectorial news covered by the committee. The newsletter is prepared under the guidance of Pratik sir and Pooja Ma'am. We hope it is appreciated and students get the most benefit out of it.

Lastly,

An initiative is always taken up by a few people, we the BFM's editorial team invite everyone who wishes to put forth there ideas or articles in the journal. Simply mail us your article at ejournalbfm@gmail.com.
We would be happy to put up your articles on the bulletin. Articles could be regarding to any topic or event that has occurred in the recent past. Suggestions regarding the same will be looked upon.

-Ratika Khandelwal

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NGT DIESEL VEHICLE BAN JOLTS CAR MAKERS, 12000 CAR SALE LOSSES ANTICIPATED

The National Green Tribunal's order banning the registration of diesel vehicles in the national capital has come as a major jolt to auto makers, who have invested heavily in diesel technology in the recent past. The decision, an interim measure until the next hearing on January 6, means the manufactures won't be able to sell 10,000 to 12,000 diesel vehicles during the period, unless it is overruled by court, show a back-of-the-envelop calculation, which was corroborated by industry executives.

The order caused a Rs 6,614 crore dent on the market capitalization of auto and parts manufactures, with shares of Maruti SuzukiBSE -0.34 % (0.34%), Mahindra & Mahindra (2.23%), Tata MotorsBSE -2.92 % (2.92%) and Bosch (2.16%) all ending lower on 12th December 2015(Friday). Companies such as Hyundai, Honda, Toyota, Renault and Ford too would be hit by the NGT decision.

The National Capital Region accounts for nearly 12% of passenger vehicle sales in India, with Delhi making up for 7%. Diesel vehicles contribute about 25-30% to the total sales in the region. The order comes after the Delhi government decided to restrict private cars in the city through an odd-even formula to contain pollution.

Auto makers have invested a lot in diesel technology, making today's diesel cars greener than before, and so there is a need to clear the perception that diesel is dirty, said industry players. The multiple orders from different authorities are not only expected to disrupt sales immediately, but also create a lot of confusion for buyers, they said.

"Instead of resorting to any knee jerk reaction or ad-hoc decisions, which may lead to confusion in consumers' mind, there is a need to bring all the stakeholders together to work out a robust long-term plan," Renault India Managing Director Sumit Sawhney said. Focusing on the transportation sector alone won't help, he added.

The need of scrapping of old vehicles - pre-emission norms which are emitting and another key aspect would be the availability of right quality of fuel in the country, that can solve majority of problem in the future, observed Sawhney.

Rakesh Srivasatva, senior vice president for sales and marketing at Hyundai Motor India, said the NGT order has to be studied in conjunction with the Delhi government plan to understand its many implications.
"To give clarity to everyone, especially the public, a road map drawn by all stakeholders along with the regulatory bodies is the need of the hour to address the related concerns," Srivastava said.

Citing reports based on an IIT-Kanpur study, Vishnu Mathur, director-general of the Society of Indian Automobile Manufacturers Association, said the automobile sector contributed just 25% to Delhi's pollution and only 10% of transport pollution came from passenger cars. So this decision affects only 2.5% of the overall problem, "is it justified", he asked. "By this, you may potentially make thousands of crores of investment go waste. It has economic impact, it impacts Make in India, employment.

Gaurav Vangaal, senior analyst at IHS Automotive, said the Central and state governments, auto companies as well as environmentalists must come together to provide a clear roadmap for the industry on emissions. "The ambiguity should be avoided on the subject," he said, adding that it would allow manufacturers to channel their investment in right direction.

NGT also directed centre and state departments to not to purchase any diesel vehicles. The order had stated that no new diesel vehicles would be registered in Delhi, and vehicles older than 10 years should be phased out completely. Industry is keeping a very close eye on the separate case filed by Harish Salve on banning diesel vehicles in 16 different cities. This case is expected to come up for hearing on 15th of December.

Whatever decision Supreme Court takes on 15th Dec may have bearing on the implementation of the NGT order," says an executive of a leading car maker.

While the narrowing gap between petrol and diesel fuel did bring down the sales contribution of diesel cars, NGT's previous order of banning 15 year old vehicle also hurt it further.

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According to Mathur diverting diesel demand to petrol is going to increase our greenhouse gas emission by 25-30% and also increase the usage of fuel in terms of liters, which will have impact on imports and foreign exchange and it will also not help in meeting the reduction in carbon footprint committed.

-By Nalini Gupta
SYBFM
Source: The Economic Times

IPO MARKET IN INDIA

The first sale of stock by a company to the public is an IPO. Companies offering an IPO are sometimes new, young companies, or sometimes companies which have been around for many years but are finally deciding to go public. IPOs are often risky investments, but often have the potential for significant gains. IPOs are often used as a way for a young company to gain necessary market capital.Through this process, a private company transforms into a public company. Initial public offerings are mostly used by companies to raise the expansion of capital, possibly to monetize the investments of early private investors, and to become publicly traded enterprises.

The Indian primary market will end the year 2015 with the best performance in five years as investors shrugged off volatility and weak foreign fund flows to lap up offerings from a diverse set of companies with completely new business models.
The success of issues like Alkem Labs and Dr Lal PathLabs means that companies have raised Rs 13,000 crore so far from the primary market in calendar 2015. Bangalore-based hospital chain Dr Narayana Hrudayalaya announced its price band at 245-250 and its issue is expected to open on Dec 17.

With this, the total IPO amount expected to be raised for the calendar year is likely to cross Rs 14,000 crore, the highest since 2010 when 64 companies raised about Rs 37,500 crore.

The trends show that the IPOs brought have done exceedingly well as they have been over subscribed. Alkem laboratories' issue of $200 million was oversubscribed 1.4 times ; Lal Pathlabs IPO was subscribed 2.64 times.

There are many advantages for a company going public. The financial benefit in the form of raising capital is the most distinct advantage. Capital can be used to fund research and development, fund capital expenditure or even used to pay off existing debt. Another advantage is an increased public awareness of the company because IPOs often generate publicity by making their products known to a new group of potential customers. Subsequently this may lead to an increase in market share for the company. An IPO also may be used by founding individuals as an exit strategy.

On the other hand there are challenges also. One of the most important is the need for added disclosure for investors. They must also meet other rules and regulations that are monitored by the SEBI. More importantly, especially for smaller companies, is the cost of complying with regulatory requirements can be very high. Some of the additional costs include the generation of financial reporting documents, audit fees, investor relation departments and accounting oversight committees.

Public companies also are faced with the added pressure of the market which may cause them to focus more on short-term results rather than long-term growth. The actions of the company's management also become increasingly scrutinized as investors constantly look for rising profits. This may lead management to perform somewhat questionable practices in order to boost earnings.

-Priya Muralidaran
SYBFM
Source: The Economic times

JAPAN - INDIA BILATERAL PROGRESS TRACK

Japan and India have had smooth relations since the past except second world war.Modi's visit to Japan in August - September 2014 and visit of honourable prime minister of Japan Mr.Shinzo Abe have lighted lamps to tremendous developments in both India and Japan on basis of mutual supports.Following are the expected progress tracks-

1)Toshiba to design Indian Railways network with its highly advanced technology
2) Mumbai - Ahmedabad to have a super fast railway network
3) India to receive investments of about 3.5 trillion yen
4) Defence improvements to be decided soon
5) Investments to be made in infrastructure zones like smart cities,rejuvenation of Ganga, agro industry.
6) Japan to support India for make in India, skill India and Clean India campaigns.
7) ODA (Official Development Assistance) loans to be provided by Japan to India.
8) Biomedicine labs to start in India and Japan both.
9) Student exchanges to take place.
10) Japanese culture to be promoted and cultural knots to be strengthened.

-Colated by
Shreya Chande
FYBFM

E- commerce companies to sell mutual funds online

You could soon buy into schemes of a Franklin Templeton or ICICI Prudential mutual fund just the way you purchase a Samsung mobile or a pair of Nike shoes online, that too at half the fee you pay to a distributor now.

Markets regulator Securities and Exchange Board of India (Sebi) is in the last lap of finalising guidelines for the sale of mutual funds on ecommerce platforms, which would allow Flipkart, Snapdeal and a host of other online marketplaces to hawk financial products which have so far been the domain of brokers and banks, people familiar with the move said. This could be rolled out as early as January, one of them said, but another source said it could take some more time. Sebi chief UK Sinha met Nandan Nilekani, the former Aadhaar project boss who heads a committee set up by the regulator to suggest steps to reduce cost structure of mutual funds, as well as representatives of ecommerce companies such as Flipkart, Scripbox, FundsIndia.com and Paisabazar.com in Bengaluru last month to discuss the plan, the people said.

Sebi, Flipkart and Snapdeal didn't respond until press time to emails sent on Monday seeking comment.

Details are still being worked out, but Sebi is likely to allow the sale of only balanced and exchange-traded funds on the ecommerce platforms initially as it wants to gauge customer response first, the people ET spoke to said. The commission attached to mutual fund products for ecommerce companies is expected to be around 0.5 per cent.

Currently, investors can buy mutual funds directly from fund houses without paying any commission or through third-party distributors and financial advisers, who charge a fee of up to 1 per cent. While the plan would make it cheaper to purchase from the ecommerce platforms than from intermediaries, Sebi is working also on other steps to make the process hassle-free.

It will make the KYC (know your customer) process and digital transactions simpler and inexpensive as these are a hurdle to online sale of financial products, the sources said. The plan is to allow Aadhaar-linked digital KYC, which the central bank and Sebi have been considering for some time but has yet to be implemented. Mis-selling provisions, which are in place to prevent agents and distributors from misleading unsuspecting customers about the characteristics of products, too are unlikely to come in the way of fund sales through ecommerce platforms, they said.

The regulator is coming up with the plan at a time when ecommerce is making tremendous strides in India, with people from small towns to metros increasingly logging on to Flipkart, Snapdeal, Amazon and other platforms to purchase everything from groceries to mobiles, TVs, cars and even homes. With increasing Internet coverage and awareness, using these online platforms will likely help fund houses to penetrate more markets in small cities and towns at lower costs. If the experiment is a success, the ecommerce model could be employed for selling more financial products as well.

Fund houses and some intermediaries already sell schemes online, but the documentation process is done physically, which adds to their cost.

The proposed steps will reduce the cost of selling schemes, said Srikanth Meenakshi, cofounder of online investment service platform FundsIndia.com that distributes mutual funds. "We incur quite a lot of costs to conduct KYC — sending people to their houses to pick up forms and photographs, etc. Now, with this, we will be able to get rid of all these costs," he said. "Digital way of doing KYC will make it very easy to onboard a customer...We will be able to do everything that an online commerce player does plus more."

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Source: Indiatimes.com
Yukti Sadrani
SYBFM

Why the coming US interest rate hike is like none ever witnessed before

Central bank watchers believe the Federal Reserve is finally ready to pull the trigger on an interest rate hike

It is hard to overstate the significance of the decision that Janet Yellen, the US Federal Reserve chairman, and the rest of the Federal Open Market Committee (FOMC) will take later this week.

America's central bank is expected to start raising interest rates, in the first such move since the summer of 2006. The anticipated economic shift has been described as "momentous" and a hugely significant milestone of progress in the repairing of the US economy since the damage done by the Great Recession.

But for many City and financial services workers, it will mark an altogether new experience. Many now working on Wall Street were not even around for the last so-called "hiking cycle". It is estimated that around a third of traders have seen nothing but near-zero interest rates during their careers. A large chunk were teenagers when the Fed last raised its rates.

It has been a long wait for those in the industry who are veterans of a previous rise. The US central bank, often considered the world's most influential, has held rates at their emergency lows of 0pc to 0.25pc since late 2008.

In doing so, it has steered the economy according to its dual mandate, to promote job growth and steer inflation towards its 2pc target. Policymakers have said for some time that the jobs side of that mandate has been fulfilled. The FOMC has delayed only because it has wanted more evidence that US inflation will return to target before increasing its rates.

Fed officials have described themselves as "data dependent", waiting for official statistics to show that the runway is clear before attempting lift-off. A string of positive surprises in the latter half of this year appear to have made an exit possible. Growth appears entrenched, and climbing retail sales indicate that consumers are more confident.

Market data reveals that investors are all but convinced that the Fed is now ready to act, believing there is a 74pc chance that policymakers will raise rates on Wednesday.

Yellen's recent comments have implied that it would require a significant shock to derail plans for higher rates.

Earlier this month, she said the US had “recovered substantially since the Great Recession”, with growth “sufficient enough” to continue putting Americans in work and push inflation back to the Fed’s target.

However, the rate rise now being considered by the FOMC will be very different from its previous one, when it moved rates up from 5pc to 5.25pc nearly a decade ago.

This time around, the world’s most powerful central bank will be raising rates from historically low levels, in a world much changed by the introduction of large-scale quantitative easing packages and layers of financial regulation.

When the Fed does finally pull the trigger on its first rate rise since the crisis, there are fears over just what the effects will be. Many are worried that the Fed’s main weapon has lost its accuracy, or could misfire altogether.

The largest change since the crisis has been the growth of vast amounts of excess reserves – the amount of cash sloshing around banks – which has ballooned from a measly $2bn before the crisis, to some $2.6 trillion today.Fed economists have described the current levels as “superabundant”.

All of this may throw “a wrench in the works”, according to Andrew Wittkop, a portfolio manager at bond trading behemoth Pimco. In the past, bond yields have tracked the Fed’s main interest rate, and in turn been able to guide all interest rates in the economy. “This link may now be broken,” Wittkop says.

The challenging task of steering interest rates upward will fall to an Englishman. Simon Potter, of the Federal Reserve Bank of New York, is running the operation, and has overseen its design.

He has admitted that the floor they will attempt to put underneath market interest rates is “soft”, and the central bank could lose control on occasion. As such, interest rates in the wider economy might not always move up, as the FOMC desires.

The Fed is unlikely to lose control entirely, but how the process will unfold in these uncertain waters is an unknown. Several analysts have warned that the period following the first rate rise could be “turbulent”.

What might be more challenging still is convincing investors that the path of increases after the first increase will be “gradual”. This word has become key to the Fed’s vocabulary, intended to reassure markets that its approach to further rate rises will be slow and steady.

Too fast, and it is feared that the Fed could choke off not just the US economy, but also send shock waves through emerging markets, which are dependent on the US for growth. Signs that higher US rates were approaching threw currencies of these vulnerable economies into turmoil this summer.

With a move by the Fed seeming all but certain, it is hard to tell how markets could react. In the vernacular of financial markets, the rate rise has largely been "priced in". Which is why the Fed's comments on the timing of future rate rises will be key.

International observers, such as the International Monetary Fund, have urged the Fed to take it slow, lest it risks another downturn. Yellen's next task is to convince everyone else that the Fed can keep its word.

http://www.telegraph.co.uk/finance/economics/12048511/Why-the-coming-US-interest-rate-hike-is-like-none-ever-witnessed-before.html

-Source: The economic times

By: Ratika Khandelwal

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