



VOLUME 4 ISSUE 1

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# MONEY SPEAKS

## Father Agnel Business School (Vashi)



### **QUARTERLY ISSUE**

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*We are thrilled to introduce the Volume 4, Issue 1 edition of the finance newsletter. This is intended to be a quarterly issue covering news from the financial world. The newsletter is also aimed at spreading financial literacy through our section on 'Financial Terminologies', 'Quiz', 'It's All About Numbers' and many more. A sneak peek at the journey of a well-known personality Ms Nirmala Sitharaman, our Honourable Finance Minister is very motivating for the young readers. Happy reading and stay tuned for the next issue!*

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## **1. GDP Slowdown Boon or a Bane?**



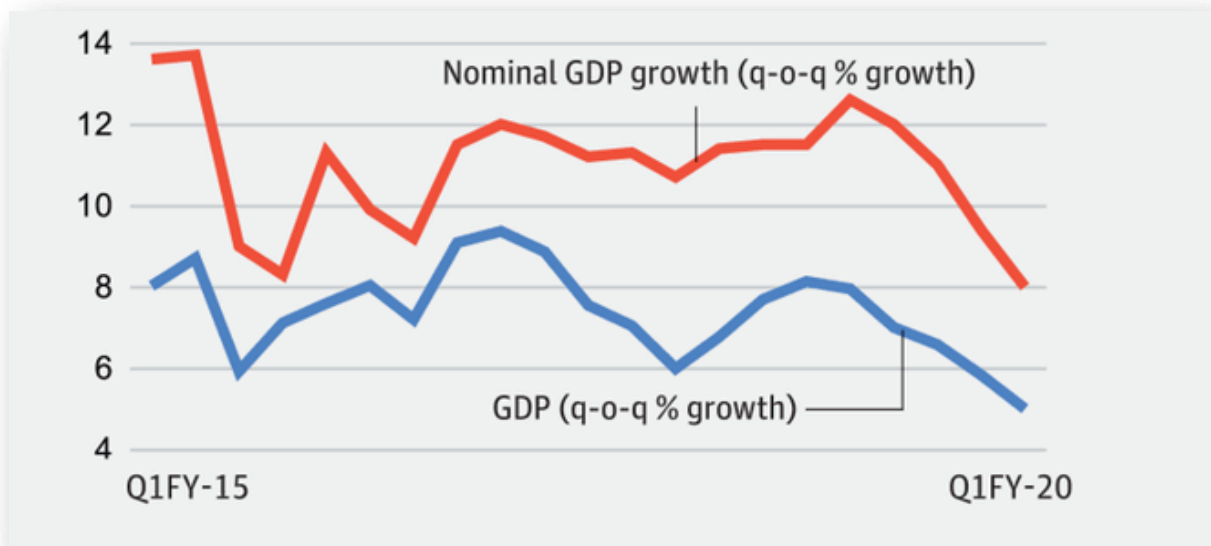
Gross Domestic Product (GDP) of an economy depends on the contribution of various factors, viz. consumption, investment, government and foreign exchange through sale and purchase of assets abroad. The monetary policy committee of RBI announced a 25-basis point cut in policy rates on 4<sup>th</sup> October 2019, bringing the Repo Rate from 5.75% to 5.15%. The projected GDP rate of 6.9% was also brought down to 6.15%. The decrease in GDP can adversely impact the customer purchasing power and spending patterns. This, in turn, would affect the business in the long run. A country's real GDP can drop as a result of shifts in consumer demand, increasing interest rates, reduction in the Government spending and other factors.

Even the Reserve Bank of India's financial report of 2018-19 states that Indian economy has been suffering losses due to low profit earned from various sectors. The GDP growth rate of the Indian economy has slipped to 5% in the first quarter of FY 2019 – 20, the lowest in over six years. This is an indication of tougher times which may happen in the coming years. Be it the recent collapse of the automobile sector, or the rising number of non-performing assets (NPA), shortfall in the consumer demand for goods and services, or the failing manufacturing sector; all have a hand in this deceleration of growth rate.

What actions have the Government of India taken to counter these crisis? Recession can be short-lived if corrective actions are taken immediately and the Government takes up new initiatives to resolve the current issues. In a welcoming move, the Government of India revised the GST rates for the automobile sector, created opportunities for Foreign Direct Investment (FDI) in the manufacturing sector and even announced the recapitalization of the banking sector. Along with these initiatives, the Government should also focus on proper allocation of funds sanctioned by the RBI and direct them to boost investment in the economy. Thus, the funds allocated by the Government in infrastructure and research projects can improve the growth of the economy in the long run.

As per sources, the then Finance Minister Nirmala Sitharaman, has introduced a INR 50,000 crore package of exports. This has been done with a view to promote exports and promote

FDI from foreign investors. This will increase the amount of foreign exchange, and result to an increase in the GDP of the country in the long run. To further provide a boost to the banking sector, the Government of India has undertaken a measure to merge 10 State – run banking institutions into four strong and efficient lenders for smooth and efficient flow of credit to realise the dream target of USD 5 trillion economy by the FY 2024 – 25.



An analysis of India’s GDP reveals that low consumer and business confidence is fuelling the slowdown. The psychology of the slowdown is clearly at work. Other than bank loans, the overall consumption remains weak.

- **Girish Haldankar**

## 2. An Overview of the PMC Bank Fraud Case



PMC Bank is a multi - state scheduled urban co-operative bank, having its operations in Maharashtra, Delhi, Karnataka, Goa, Gujarat, Andhra Pradesh and Madhya Pradesh. With an employee strength of 1,814 employees and a network of 137 branches, it ranks among top 10 co-operative banks of India. The bank started its operations on 13<sup>th</sup> February, 1984 as a single branch bank. In the year 2000 it was conferred with ‘Scheduled’ status by the RBI.

The crux of this bank fraud is that Joy Thomas, the former Managing Director of PMC Bank, was in close relations with the Wadhwan of the Housing Development and Infrastructure Ltd. (HDIL) group. Because of this, the higher management of PMC Bank gave huge loans to HDIL. In a five – page letter to the RBI, Thomas stated that the bank had faced financial trouble twice before, and in both the cases the Wadhawan family of the HDIL group bailed out the bank and helped them to overcome its troubles.

In this fraud case, the bank transferred around 70% of the total credit facilities to HDIL and its associated companies. The total amount of bank fraud recorded amounts to INR 4,355 crores. Thomas’ letter also states that the PMC bank under reported its NPA’s (Non - Performing Assets). The actual NPA of the bank is much higher than what was actually revealed to RBI, and now the total NPA of the bank has grown to 73%.

In order to avoid RBI’s action and riding on HDIL’s record on paying back its dues, the bank did not classify the unpaid dues and the stressed accounts of NPA. The delay on HDIL’s side started showing up. When the RBI asked for increased scrutiny the stressed accounts of the group were replaced by 21,049 dummy accounts on the bank’s balance sheet. After this, the RBI did not check the accounts, since they were classified as ‘Loans against Deposits of Lower Denominations’.

This fraud was busted by a bunch of women employees of the credit department of the bank, who knew first-hand about the dummy accounts. When the case came into light, the customers of the PMC Bank rushed to the bank’s nearest branches to withdraw their hard - earned money, but were refused by the bank. Also, to avoid chaos created by their customers, PMC bank’s management decided of setting up withdrawal limits, which were set to INR 1,000 a month.

A vital piece of information not mentioned in Thomas’ letter, which the news outlets have reported is that, out of the PMC bank’s advances of almost INR 8,300 crores, the amount of exposure created by the HDIL amounts to over INR 6,500 crores. The company (HDIL)

currently has a bucketful of troubles of its own, and is heading to the National Companies Law Tribunal (NCLT) to begin the Bankruptcy proceedings.

As per sources, the Enforcement Directorate (ED) has recently sealed the assets of INR 3,500 crores of the HDIL group. Also, the HDIL chief Mr. Rakesh Wadhawan and his son Sarang Wadhawan have been arrested by the Mumbai police. The ED has also conducted investigations on its other associations, and has started the procedure for returning the customers' savings.



- **Chhaya Mudduluru**



### 3. Flipkart to Launch New Venture



India is a country wherein the consumers spend up till USD 500 Billion on groceries annually. In order to take advantage of this market, and meet this rising demand for groceries, Walmart – owned e-commerce giant Flipkart has come up with an innovative plan to sell the items in the Indian market, i.e. by introducing ‘FarmerMart’ to take on its arch-rival Amazon in the segment of food supply chain.

The newly – registered subsidiary ‘Flipkart FarmerMart’, having an authorized equity capital of INR. 1,845 crore, will be selling their products locally. Sales will initially be online, although the company can also sell through physical outlets. Sources say that Flipkart is investing INR. 2,000 crores in the business and would pump in more funds as and when the need arises for scaling up the chain of supply, storage and logistics.

Flipkart Group CEO Kalyan Krishnamurthy, in a statement to the press, said that “Flipkart is applying for appropriate licenses from the Government.” This is in tune with the Government of India’s FDI Policy, which allows for 100% of Foreign Direct Investment in the segment of food retail for “food manufactured and produced in India”. He has also said that, “We have secured all internal approvals for the same already, and the entity will focus on food retail, help in boosting the agriculture as well as the food – processing industry”.

With regards to increasing the market base for consumers, Krishnamurthy said that they are “looking forward to invest more into the local agri ecosystem, supply chain and working with lakhs of small farmers and Farmers’ Producers Organisations (FPOs) and food processing industries in India, thereby helping the farmers multiply their agriculture income and bring affordable, quality food for millions of customers across the country.”

In a fast – moving economy like India, Walmart does not sell their products directly to the consumers. It is basically an ‘organized wholesaler’ or a ‘cash – and – carry’ operator that deals with selling their products to the small neighborhood stores, catering firms and hotels. Being the world’s largest retailer, Walmart acquired Flipkart for USD 16 billion in the year 2017 to gain entry in India’s USD 670 billion retail market.

Food is the only segment wherein the retailers can directly sell their merchandise to the consumers. With a view to creating jobs and providing a helping hand to the farmers, the Government, in 2016, sidestepped opposition to foreign investment in multi-brand retail, so that it would create a food – retailing segment for the same.

With regards to increasing the agricultural income of the Indian farmers, food processing industry minister Harsimrat Kaur Badal mentions that, “It will give a boost to increasing the

income of the farmers by directly sourcing from them and supporting the food processing industries. The Ministry has been aspiring to contribute to achieve in doubling the farmers' income and creating job opportunities for the youth.”

Devangshu Dutta, chief executive at ‘Third Eyesight’ consultancy, affirms Walmart’s seriousness in investing in the food segment in India. He says that, “Since the gross margin in the food segment is thin, especially with regards to fresh produce, managing the transportation costs, logistics and wastage will be crucial.” He also states that, “Food is the major chunk of the retail segment and building scale will be of prime importance, but building the supply chain will be a real challenge.”

Walmart rival Amazon has already committed to investing USD 1,500 million over a five – year period, with a view to selling third – party and own privately labelled food products through online and retail outlets. Within a span of few months, it has also launched a new initiative named ‘Two – Hour Delivery’ for supply of fresh products and vegetables.

With regards to market share, online grocers such as Grofers and Big basket have a major chunk of the online market, but brands such as Flipkart, Amazon and Swiggy are making inroads in this segment. As per sources, Flipkart is working towards creating a full – fledged retail business that will operate in the online space.

- **Jason Fernandes**



#### 4. Ambani to Create New E-Commerce Giant For India



Billionaire Mukesh Ambani has sought plans to setting up a new, ‘full – fledged’ e-commerce giant for India, with a view to setting up a USD 24 billion ‘Digital Services’ holding company, which would prove to be a major contributing factor in dominating the country’s online shopping space.

The board members of Reliance Industries Ltd. has approved to pump in funds worth INR 1.8 trillion (USD 15 billion) into the ‘fully owned’ subsidiary, that would, in turn, invest the same funds in Reliance Jio Infocomm Ltd., which is the conglomerate’s telecommunications venture. Reliance Jio, which currently has a net worth of INR 650 billion, is under plans to make itself ‘debt – free’, by way of series of capital transfers from the new venture, which could get completed by March 2020. By creating an online platform for the Indian masses, Ambani plans to compete with the likes of Amazon.com Inc. and Walmart Inc.’s Flipkart. In a meeting with the shareholders, Ambani mentioned that the new businesses would contribute to at least half of Reliance’s earnings in the coming years.

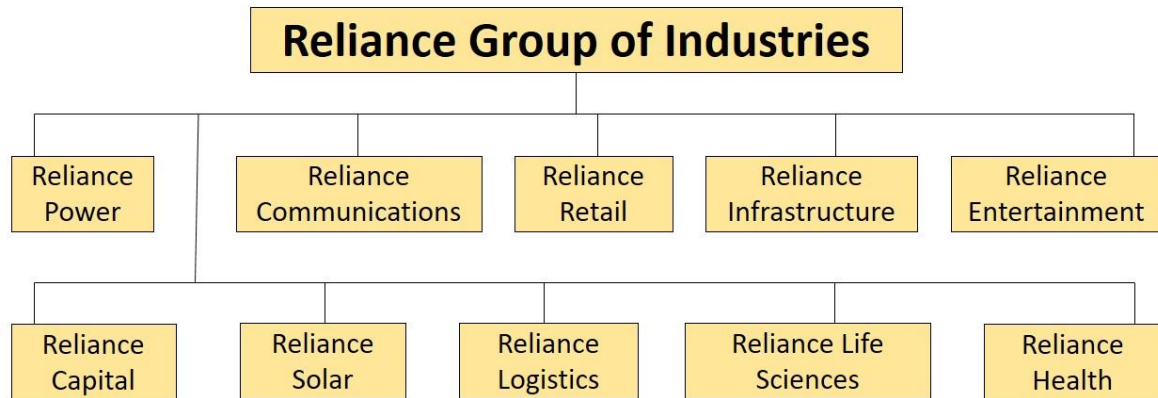
With the onset of the new holding firm, Ambani is also unveiling plans to launch an Initial Public Offering, which is scheduled to complete within the next 5 years. After Jio’s rollout in the year 2016, it has created a market base of more than 350 million subscribers. Ambani is also creating strategies of having partnerships and acquisitions with other firms to make his new e-commerce stable in the market.

As per sources, once the equity infusion has been completed, Reliance Jio will transfer its liabilities worth INR 1.08 billion to a subsidiary of the parent company, which would convert Reliance Jio into a ‘debt – free’ company. Reliance Jio will invest the funds in the holding company – likely in the lines of Alibaba Group Holdings Ltd. and Alibaba Inc., by way of issuing “partially – convertible” Preference Shares. As per a report by Reliance Industries, the unit will acquire the parent’s equity investment of INR 650 billion in Jio.

##### **Streamlining the Structure**

As per a report submitted by Citigroup, “The re-organization of Jio’s Capital Structure aims at consolidation of all its digital assets under one entity. Thus, it would the debt at this entity and streamline its organizational structure so as to make it more attractive to the market for eventual monetization.”

With regards to Alibaba, Jack Ma (its founder) had begun his work from scratch way back in the year 1999. Ambani is using the major part of its empire to create a platform on the same lines, which would be similar for the Indian consumers, by establishing a connection between the retailers and the consumers. Alibaba, having a market value of USD 454 billion, has recently reported a net profit of USD 13 billion in the year ending March 2019, on revenue of



USD 56 billion. The Chinese giant's expansion is also due to the addition of 'mom-and-pop shops', an initiative which Ambani is also trying to include in his new venture.

If the above plan gets implemented successfully, we believe that Mukesh Ambani will be the first entrepreneur to have effectively taken care of the liabilities of Reliance Jio Ltd. Also, creating a secure market base for the new organisation and streamlining the overall operations of the venture will be of prime importance once the new venture enters into the market.

- **Hrishikesh Shelar**

## 5. Money Speaks Presents: The Corporate Blog Dell Inc. (Michael Dell, Chairman & CEO)



In the current market scenario, where there is a rising demand for high – end laptops and computer peripherals for commercial and individual use. Dell Inc. (Formerly known as Dell Computer Corporation), tops the list of top 10 computer technology companies in the world. Over the past number of years, the company has grown in their variety of products, the services offered and overall market share in India and in the Unites States. Due to its large scale in – house manufacturing process and other allied services, Dell Inc. has been successful in catering to the needs of its individual customers and people working in commercial establishments both in India and the United States.

The continuous success of Dell Inc. dates back to the year 1984, where it began its initial stages of selling IBM PC – compatible computers built from stock components. Initially known as Dell Computer Corporation, its founder Michael Dell ‘produced’ the first model computer of his own design, the *Turbo PC*, which got sold for USD 795 in the year 1985. In the year 1990, Michael Dell hired Morton Meyerson (Former CEO & President of Electronic Data Systems) to take his business to the next level, i.e. from a “fast – growing” medium – sized firm, to a multi – billion dollar enterprise. Through its implementation of the Just In Time (JIT) policy of manufacturing approach, Dell Inc. has been successful in cutting down of its inventory costs. Another signature of the Dell business model is low inventory, which is a critical point of consideration in today’s scenario, where the components ‘depreciate’ at a faster rate.

Dell Inc. has, in the early 2000s, invested a roughly USD 60 million in the city of Chennai, to boost the sales of its products in the Indian subcontinent. Indian – made products bear the mark of ‘Make In India’ under the programme launched by PM Narendra Modi. Its major fields of expertise include assembly, software installation, functional testing (including “burn – in”) and quality control. Over the years, Dell Inc. has made a number of acquisitions to its name, from the acquisition of ‘Alienware’ in the year 2006, to ‘StatSoft’ in the year 2014; thereby increasing its presence in the electronics and allied services sector. In the coming years, it looks forward to making India a hub for manufacturing desktops and laptops for the neighbouring countries and West Asia, if the Indian Government is willing to reduce the taxes on exports. It also plans to use the unutilised capacity at its hardware manufacturing unit in the country in the upcoming years.

### Achievements earned by Dell since its inception

Year	Achievements
1984	Michael Dell created Dell Corporation
1985	Dell produced its first own design, the 'Turbo PC'
1987	Renamed Dell Corporation to Dell Computer Corporation
1992	Dell included in Fortune magazine's list of world's 500 largest companies
1993	Started selling PC's at Wal-Mart
1999	Surpassed Compaq to become the largest PC manufacturer
2002	Expanded product line to include TVs, handhelds, digital audio players and printers
2003	Rebranded Dell Computer Corporation to Dell Inc.
2004	Michael Dell resigns as Dell CEO, handing over CEO title to Kevin Rollins
2006	Acquired Alienware, manufacturer of high - end PC's popular with gamers
2015	Announced its intent to acquire EMC Corporation, labelled as the 'highest valued tech acquisition in history'

## 6. Money Speaks Presents: The Personality Blog **Nirmala Sitharaman (Hon'able Finance Minister of India)**

**Nirmala Sitharaman** (Born 18 August, 1959)

Previous Minister of Defense

Appointed as Current Finance Minister of India on  
30 May, 2019

### **Alma Mater**

- Masters of Arts (Economics) AND M. Phil.  
From Jawaharlal Nehru University, 1984
- Bachelor of Arts (Economics) from  
Seethalakshmi Ramaswami College,  
Tiruchirapalli, 1980



The 59 years old is India's First full – time woman Finance Minister, Mrs. Nirmala Sitharaman. Born on 18 August, 1959, she had completed her schooling from Madras & Tiruchirapalli. She obtained a Bachelors of Arts degree in Economics & M.Phil. from Jawaharlal Nehru University in the year 1984, and is currently holding the post of Defence Minister in the Narendra Modi–led NDA Cabinet.

She began her career as one of the Spokesperson of the BJP under Ravi Shankar Prasad. Even though her family members were Congress supporters, she joined the Bhartiya Janata Party (BJP) in the year 2006. As regards her position in the BJP, she quickly climbed the ladder of success & gained many important positions in the party.

She assumed the post of Spokesperson of the BJP during the tenure of Nitin Gadkari in the year 2010. She defended the party in many situations and also praised many people, including Narendra Modi, on social media. She became a popular face not only in Delhi, but also in the BJP's headquarters situated in Gujarat. She came in touch with Sushma Swaraj, who was the senior BJP leader, when serving as a member of the National Commission for Women (NCW) from the year 2003 to 2005. She won a place in the BJP after being impressed by her dignified personality and her outspoken views on various issues. She is also currently holding the post of MP of Rajya Sabha in Karnataka state, after being appointed as the member of the Rajya Sabha of Andhra Pradesh.

Known for her cordial approach with her subordinates and others, she played a major role during the Lok Sabha elections of 2014. She had projected that Narendra Modi would be the 'Future Prime Minister' of India. It was her sheer determination and her hard work that won her a seat in Modi's Cabinet in the year 2014. With regards to amendments in the Companies' Act, 2013, she asserted that amendments are not mandatory in the Act, if the stakeholders do not have any objections with regards to changes in the rules. Recalling her youth, she suggests that, we should always choose the middle path and stay clam at all times.

## 7. Financial Terminologies



1. **Leveraged Buyout** – A Leveraged Buyout (LBO) is the acquisition of another company using a significant amount of borrowed money to meet the cost of acquisition.
2. **International Monetary Funds (IMF)** - The International Monetary Fund (IMF) is an International Organization that aims to promote global economic growth and financial stability, encourage international trade, and reduce poverty.
3. **Balloon Loan** - A Balloon Loan is a type of loan that does not fully amortize over its term. Since it is not fully amortized, a balloon payment is required at the end of the term to repay the remaining principal balance of the loan.
4. **FICO Score** - A FICO score is a type of credit score created by the Fair Isaac Corporation. Lenders use borrowers' FICO scores along with other details on borrowers' credit reports to assess credit risk and determine whether to extend credit.
5. **Micro Loan** – Micro loans are small loans that are issued by individuals rather than banks or credit unions.
6. **Tax Lien** - A tax lien is a legal claim against the assets of an individual or business who fails to pay taxes owed to the government.
7. **American Depository Receipt (ADR)** - An American depository receipt (ADR) is a negotiable certificate issued by a U.S. depository bank representing a specified number of shares — or as little as one share — investment in a foreign company's stock. The ADR trades on markets in the U.S. as any stock would trade.
8. **Individual Retirement Account** - An individual retirement account (IRA) is a tax-advantaged investing tool that individuals use to earmark funds for retirement savings.
9. **Loan to Value** - Loan-to-value (LTV) ratio is an assessment of lending risk that financial institutions and other lenders examine before approving a mortgage. Typically, assessments with high LTV ratios are higher risk and, therefore, if the mortgage is approved, the loan costs the borrower more.
10. **Laissez Faire** - Laissez-faire is an economic theory from the 18th century that opposed any government intervention in business affairs. The driving principle behind laissez-faire, a French term that translates as "leave alone".



## 8. Finance Quiz



The Securities and Exchange Board of India (SEBI) was established in

- a) 1992
- b) 1947
- c) 1990
- d) 1976

2. Which Five-year Plan is being implemented at present?

- a) Thirteenth
- b) Eighth
- c) Twelfth
- d) Tenth

3. Which of the following is not a direct tax?

- a) Sales tax
- b) Income tax
- c) Wealth tax
- d) Estate duty

4. Who is the ex-officio chairman of the Planning Commission?

- a) Prime Minister
- b) President
- c) Chief Justice of Supreme Court
- d) Speaker of Lok Sabha

5. In India farm credit is regulated by

- a) SBI
- b) RBI
- c) NABARD
- d) Union Government

6. The Indian rupee is a legal tender in two other countries. One is Nepal. The other is

- a) Pakistan
- b) Sri Lanka
- c) Bhutan
- d) Afghanistan

7. Which of the following taxes is the largest source of revenue for the Government of India?

- a) Excise
- b) Customs
- c) Income tax
- d) Corporation tax

8. What happens to marginal cost when average cost increases?

- a) Marginal cost is below average cost
- b) Marginal cost is above average cost
- c) Marginal cost is equal to average variable cost
- d) Marginal cost is equal to average cost

9. What is Net National Product?

- a) The money value of annual services generation in the economy
- b) The money value of final goods and services produced annually in the economy
- c) The money value of tangible goods produced annually in the economy
- d) The money value of tangible goods available in the economy

10. Through open market operations, the RBI purchase and sell

- a) Foreign exchange
- b) Gold
- c) Government Securities
- d) None of these

11. A firm is said to be of optimum size when

- a) Average Total Cost is at a minimum
- b) Marginal Cost is at a minimum

- c) Marginal Cost is equal to Marginal Revenue
- d) The firm is maximizing its profit

12. The law of demand states that

- a) Demand increases with an increase in income
- b) When income and prices rise, the demand also rises
- c) When price falls, demand increases
- d) When price increases, demand increases

13. The balance of payment comprises

- a) A Current Account of goods & services only
- b) A Capital Account of Financial Assets only
- c) Official Settlement Accounts only
- d) All of these

14. Deflation is

- a) Deficit budget
- b) Reduction in taxation
- c) Contraction in the volume of money or credit that results in a decline of price level
- d) Increase in public expenditure

## 9. RBI Rates

<b>RBI RATES</b>	<b>%</b>	<b>As on</b>
Policy Repo Rate	5.15	18 <sup>th</sup> Dec, 2019
Reverse Repo Rate	4.90	18 <sup>th</sup> Dec, 2019
Marginal Standing Facility Rates	5.40	18 <sup>th</sup> Dec, 2019
Bank Rate	5.40	18 <sup>th</sup> Dec, 2019
CRR	4.00	18 <sup>th</sup> Dec, 2019
SLR	18.50	18 <sup>th</sup> Dec, 2019
Base Rate	8.95-9.40	18 <sup>th</sup> Dec, 2019
MCLR(Overnight)	7.65-8.00	18 <sup>th</sup> Dec, 2019
Savings Deposit Rate	3.25-3.50	18 <sup>th</sup> Dec, 2019
Term Deposit Rate(>1year)	6.25-6.60	18 <sup>th</sup> Dec, 2019

<b>GOVERNMENT SECURITIES MARKET</b>	
6.45% GS 2029	6.7103%
91 Day T-bills	5.0073%
182 Day T-bills	5.1938%
364 Day T- bills	5.2665%

<b>RBI EXCHANGE RATES</b>		<b>As on</b>
INR / 1 USD	71.12	19 <sup>th</sup> December, 2019
INR / 1 Euro	79.09	
INR / 100 Jap. YEN	65.08	
INR / 1 Pound Sterling	92.61	

<b>SHARE MARKET</b>		
BSE	41558.57	18 <sup>th</sup> December, 2019
NIFTY 50	12221.65	18 <sup>th</sup> December, 2019

<b>COMMODITY MARKET</b>		19 <sup>th</sup> December, 2019
Crude Oil (WTI)	4341.88	
Brent Crude	4723.08	
Gold (per 10gm)	39200	
Silver (1kg)	47275	

