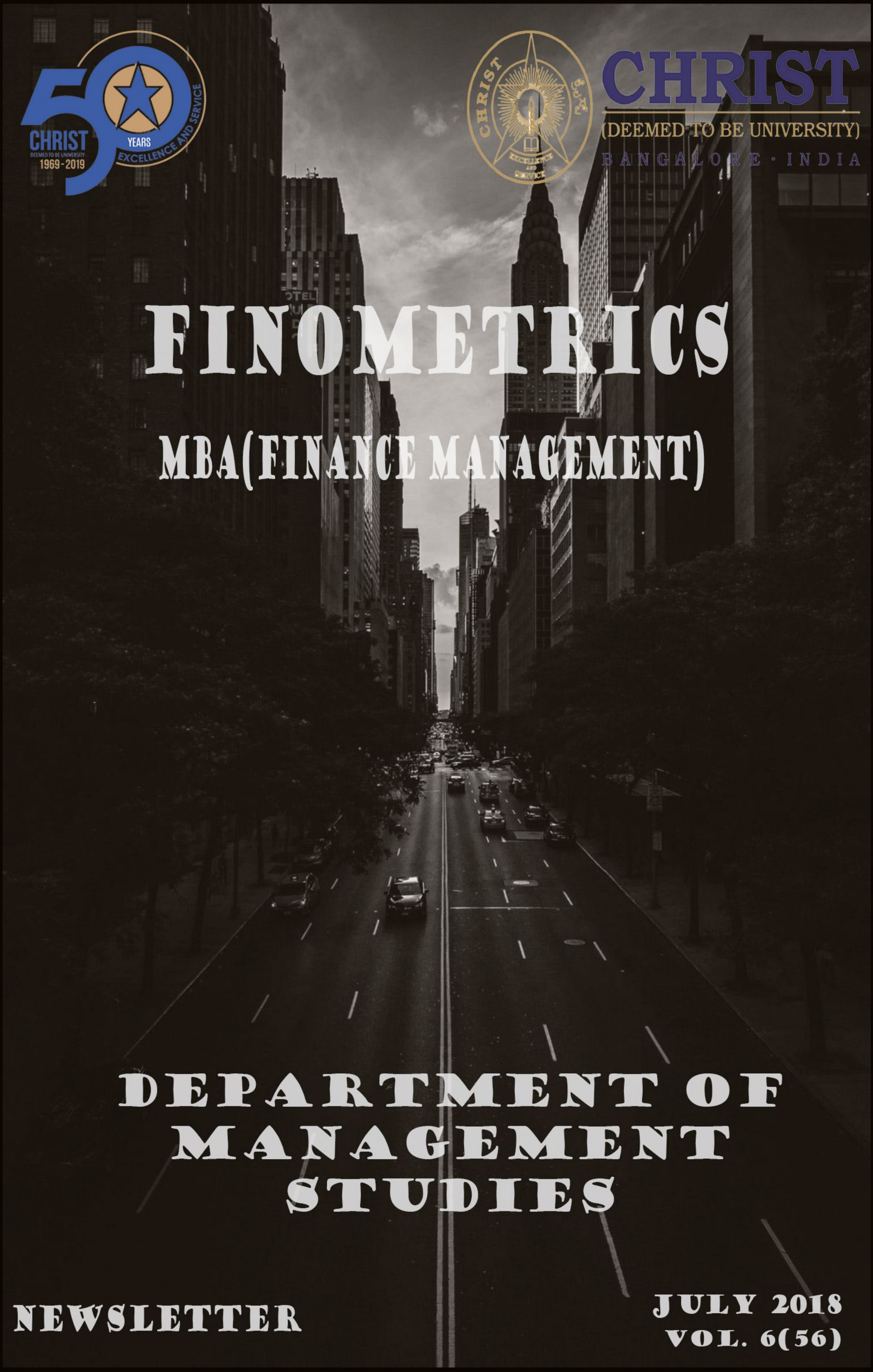

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FINOMETRICS

MBA(FINANCE MANAGEMENT)

DEPARTMENT OF MANAGEMENT STUDIES

NEWSLETTER

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INSIGHTS INTO

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How can you sell stocks which you don't own?

By: BishalJyoti Das

Reg No-1828804

Well, this is a common question that any new market entrant would ask once he or she comes up with the concept of "*Short Selling*". So, if you are a beginner in stock market or thinking about trading, this article would give you an insight on this important concept. Short selling is a mechanism where in a trader can short or sell the stocks or any other financial securities in the market without even owning the same with an obligation to execute the opposite trade before a specific time. For example, Mr.Gyanendra comes to know that the price of tomato is going to come down by Rs.5 per kilo from Rs.20. Thus, he can simply borrow 10 kilos of tomato from the nearest grocer's shop and sell it in the market for Rs.200 (20*10). After the price comes down to Rs.15, Mr. Gyanendra would buy 10 kilos of tomato from the market for Rs.150 (10*15) and return the same to the grocer. Mr. Gyanendra made a smart Rs.50 by owning nothing but the information of the price fall. Similarly, in case of stocks, a trader can make easy money by shorting the stocks (technically a borrowing from the brokers), if he or she anticipates the stock to underperform.

India so far has not developed any sophisticated shorting instruments. Short selling in India is limited only to intra-day trades, where in the sell/short position needs to be squared off before the end of the market hours. However, traders can take the advantage of various derivative instruments like futures, options or forwards to exercise short selling on a longer term basis. But the caveat present here is the leverage. Derivative's major purpose is to serve the long term investors in tackling volatility. But, with excess trading in these highly leveraged instruments can put anyone in a total distress. As there is no upper limit on the price of a share, selling a share would imply unlimited loss on rising share price. Therefore, selling short cues riskiness in a portfolio.

As already mentioned, India doesn't have any sophisticated shorting instruments. This provides for a further scope in the field of trading in India.

Income from salaries and its constituents

By: SettipalliPravallika

Reg No-1828839

A tax when directly paid by an individual or an organisation to the Government, is called Direct Tax. Income earned by an individual in the form of salary comes into the category of direct tax as it is paid by the individual himself.

For computing taxable salary, the term **salary** includes:

i. Wages or salaries
ii. Annuity or pension
iii. Any advance salary received
iv. Gratuity
v. Additional commission, profits, or perquisites
vi. Leave salary or leave encashment.

A person, Mr. X joined a firm on March, 2017. He received his salary from April, 2017 to January, 2018, out of which he removed some amount and put in the pension fund. But Mr. X, took an advance of his February month salary in month of January itself. Salary of March, 2018 is yet to be received by the employees of the company. Mr. X took a loan from the employer, and they entered into an agreement which states that the amount taken by Mr. X, will be adjusted with the salary earned over 6 months of time. But, according to Section 15, salary comes under tax head, earlier of 'due basis' or on 'receipt basis'. When a person receives salary in advance, it gets taxed irrespective of whether it is due or not.

The terms advance against salary and advance salary mean different. If an employee takes advance from his employer and the same is adjusted with his salary, then it is called advance against salary and the same cannot be taxed under the head income from salaries.

So, in the above scenario, except the loan taken by the employee from the employer,which cannot be taxed under the head income from salaries, everything should be taxed.

Throwing a Taper Tantrum

By: AvinaBhansali

Reg No-1882826

The financial world is full of jargon and one such terminology is Taper Tantrum, which can drastically affect your portfolio and is closely related to Quantitative Easing. In the year 2009, U.S. was going through a market slow down and to prevent the market slowdown and to prevent the market crash, the economy backed up itself by giving extra money to the people of the country through Federal Reserve. To nudge back the economy in the right direction and to increase the cash flow in the economy, the mechanism of Quantitative Easing was used.

So how Quantitative Easing is related to tapering? When the reserve is pumping money in the economy, everything runs smoothly in the economy from households to businesses, everything seems to bloom, but that's not the real picture. Introduction of more money in the economy at the time of inflation and recession is a dangerous sign, enough to destroy an economy. Neither it can be a long-term solution, nor can it curbed in a short period of the time. To alleviate the worries, the Central Bank will curtail its bond buying program, which is called Tapering, Let's suppose that they are buying $ 10 billion of securities this year, and that next year, they are buying $ 8 billion worth, and so on until they are not putting money into the economy and it can support itself. This sounds good but it is a paradox.

Stock and Bond Market are highly volatile rather reactive in nature and what happens if central bank starts to taper off the money in the economy? A response to something like this must be bad leading to a situation of panic in both the people and the economy. Back in 2013, U.S. was in a recession period and was building back from that period, faced a situation of tapering, due to which the term 'TAPER TANTRUM' was coined. In this situation, interest rates on loans often rises, inflation takes over and large fluctuations will be seen in the stock market which represents the situation of the respected economy.

Currently, Europe is giving us a new taper tantrum by tapering off its quantitative easing bonds and the process is led by Europe Central Bank, the cause being Lehman crisis in the economy which eventually led to Eurozone economy. Another reason is inflation in the economy. Quantitative Easing is all about bringing inflation up which is already a problem. Therefore, the European Central Bank is throwing a Taper Tantrum in the economy to deal with the issues of inflation and crisis.

How is Retirement Planning helpful in today's context?

By: KirtiSrivastava

Reg No-1828829

Imagine yourself working in a big multinational company where you are getting paid tremendously, getting travelling allowances through which, you and your family is enjoying travelling in Singapore and what not. Now, let's add some twist in the story. This is going to be the last month in your company and after this there is a good retirement party thrown by your colleagues to you. Well! Congratulations, you are getting retired by the end of this month.

Let me guess your current situation. There is a large trail of thoughts and even lot of sweat to be seen on your forehead not of the extreme climatic conditions (**obviously Bangalore doesn't show these weather after-effects) but because of the increasing tension as in what will happen once you retire. Obviously, there won't be any message popping up like 'Amount has been credited' from your bank once you retire. So yours, so called "riche rich" lifestyle will be affected if there is no future retirement plan.

Exactly this is what will be discussed further.

Key is to start early. The first step you should undertake, is to select the best Retirement Plan for yourself. It should be calculated keeping in mind all the best possible ways to live your life without hindrances which would include calculating the expected retirement costs as well.

Now, coming to the question as in what is exactly the ideal Retirement Plan? It should be the one which allows the retiree to save the right amount of money for himself and his family after knowing and evaluating all the possible expenses of his family. But, disclaimer is that it should neither be including any the Investment options for the retiree nor should include any kind of income tax liability to be borne by the retiree.

Then how can we evaluate the best Retirement plan by ourselves? Well, don’t worry on that aspect because the market offers us all the aids. There comes a person, calling himself the Financial Advisor, who can assist you with the best retirement plans. He will first ask you to tell him your goals after the retirement. Don’t restrict yourself of fearing for increased costs for yourself. One should always remember we have one life to live it to the fullest. So, feel free to tell him where you want to travel, how you want to explore all kinds of food available and go on the major treks available in the world, throw amazing parties and all the dreams for which you have been living.

But wait, what if we become the genie of your lamp today. What if, we tell you that we can give you an insight regarding how you can come up with a great Retirement plan without even bringing sweet chocolates to your advisor. Well, here is the thing.

Step 1: Try investing some fixed proportion of the salary in your retirement plan from Day 1. I know that spending your first salary eating and shopping would be one dream for all but then, be an opportunist and try investing.

Step 2: Invest raise, refund and bonus directly. You should probably know which will be the best option that any company is giving regarding retirement plans. Analyse them and invest to get direct benefits.

Step 3: Risks, okay. Crazy Risks, not okay. You should probably know which are the options having low and high risk. For example, equity shares have greater risk but the return is huge but on the other hand, debentures have very less risk but the return is also less. But don’t be stupid enough to invest all the amount in equity shares, if you lose all there nothing would be left. So, again evaluate on the basis of market information and invest.

Step 4: To go for child’s future or your own? Well, it’s obvious that you will looking ahead of 30 years while planning your retirement. It would be better to secure the future of your own because the child’s expenses can be beard through a lot of alternatives.

All our life, we have been studying and working hard for the company, so make sure that you plan your retirement in paper and not in dreams anymore because if life is not lived after retirement, then it is not a life earned. So, prepare a bucket list and start investing now. Just remember the right retirement plan can either help you through the world tour or even the small tour of your state where you belong. It requires the right planning and focused approach.

My opinion on FDI

By: Khyati Bansal

Reg No- 1828828

It's been quite a few years since India has opened its doors for foreign companies to invest. But, was it a good decision or a complete disaster? Well, here's my take on it.

As we all know it, Foreign Direct Investment (FDI) is the type of investment in business of other's countries enterprises. Generally, FDI takes place when an investor acquires foreign business assets, including controlling the interest in a foreign company or establishing the ownership or establishes a foreign business operation.

It is safe to say that with the investment of more than 150$ million by foreign companies, infrastructure facilities, refrigeration technology, transportation, etc. have somehow got renovated. Also, foreign companies have created a supply-chain in the India market. Moreover, according to data, due to investment of foreign companies, job opportunities in area like marketing, agro-processing, packaging, transportation etc. have been created.

Mukherjee defined FDI as, "the most important form of capital flow or investment made into organizations and domestic structure equipment, which has several positive effects, which include technology transfers, productivity gains, and the introduction of new processes, managerial skills, and know-hows in the domestic market.

But, the picture doesn't seem to be so appealing on the other side. Small 'Kirana store owners' and other small retailers have suffered a large loss. Giant Retailers and Supermarkets like Walmart, Carrefour, etc. have displaced small retailers. Foreign Giants purchased their goods from the international market and not from the domestic sources, therefore, jobs in the manufacturing sector were lost. FDI in 2017-18, grew by only 3 per cent to USD 44.85 billion shows the data by Department of Industrial Policy and Promotion (DIPP).

Now, it is true that FDI has done some deeds, but detriments are little more serious. India, on an average have 11 shops per 1000 people and have more than 1.2 crore shops, which gives employment to about 4 crore people.

These 4crore people have suffered a lot of problems. What about those?

As Indian government's condition, companies from small industries of India, just bought 30%, but what about the rest 70%? Walmart and all these other big giants imported their majority goods from China. On considering Walmart as a country, then it was one of the top-10 countries which was importing goods from China. These giants like Walmart just dumped their goods from China and we just couldn't stop them for doing that.

Today it is very evident that the growth in FDI in India is very low. This affects our economy big time. To have our economy become stable we need to attract some foreign investors. Since India would require investments in the coming years, FDI is important to overhaul its infrastructure sector to boost growth. Decline in foreign inflows could impact the value of the rupee and may also put pressure on the country's balance of payments.

According to Anil Talreja, the Indian Government needs to take steps for reviving the domestic investment to attract foreign investors. Well, until this issue remains unaddressed, worsening regional disparity will greatly overshadow the positive impacts of hard-won economic gains from FDI even though FDI would continue contribute to accelerating India's economic growth.

RuPay- The word itself has a sense of nationality

By: Sushi Sahani

Reg No-1828841

RuPay is India’s indigenous card scheme created by the National Payments Corporation of India. Rupay card scheme is developed by RBI and its vision is to provide a domestic platform for digital payments in India. Presently RuPay has collaborated with every National, International and local banks across the country. It has expanded from 10 crore promoter banks to 56 crores.
Rupay has been successful in pipe lining two top international card giants, Visa and MasterCard on the value and volume of transactions it processes. Visa card and Mastercard have dominated the debit and credit card industry in India for 3 decades and finally India in its urge to move towards a cashless economy has made a difference and giving tough competition to international competitors.
The government prescribed the issuance of RuPay cards to each of the account holders who have opened the accounts under the Prime Minister Jan DhanYojana launched in 2014.It is the only platform along with Aadhar, where the west is trying to follow the east. As, there is huge international demand for India’s UPI platform among the large players.The reach of this scheme has gone so far, that some 30 countries have approached India for the technology of “BHIM UPI” for advancing in digital payments. This is a big achievement for our country on it path of Cashless Economy and in making of Digital India. Being one of the most successful schemes introduced by the government of India so far, Rupay scheme has been able to reach out to the remotest of all the corners of India.

Financial Engineering- An Amalgamation of Finance with Science

By- Nayancee

Reg No 1828833

Few years back, while travelling to my hometown, I met a person on plane who was sitting right beside me and was trying to solve some financial operations with use of computer programming. Being inquisitive of what is he doing (since I was a software engineer and was able to understand some part of computer programming), I asked him what he does. He replied, "I am a Financial Engineer and my job is to derive best financial strategies with use of maths and computer programming". Coming from an engineering background, I had never heard about such branch of engineering before. So, my curiosity increased, and I decided to know more about it. Post reading about it, I realised that details of Financial Engineering are worth sharing with you all fellow classmates.

Basically**,** financial engineering is the quantitative and technical approach of developing financial strategies and products. It involves use of financial theories, statistics, computer programming, methods of engineering and mathematical tools to do customer- driven derivatives business. Derivative Business consist of quantitative modelling and programming, trading and risk managing derivative products in compliance with the regulations and Basel capital/liquidity requirements. Organisations like Investment banks, commercial banks, hedge funds, insurance companies, corporate treasuries, and regulatory agencies employ financial engineers. Financial engineers indulge in designing, creating and implementing new financial instruments, models and processes to solve problems in finance and take advantage of new financial opportunities.

They rely on in-depth data analysis, derivative securities valuation, portfolio structuring and scenario simulation while trying to derive best financial strategies to help companies to maximise their profits.

Examples include creating derivatives that address unusual risks faced by a party to a transaction, structuring a purchase or sale in a way that better addresses the interests of the buyer and the seller, and using new methods to compute the fair market value of new or existing financial instruments. Financial engineering is somewhat controversial as some people believe that it increases any economy's systemic risk instead of decreasing it. For example,

financial engineering is largely responsible for the development and use of derivatives like credit-default swaps and mortgage-backed securities that were blamed for the near financial meltdown in 2007-2008.

As, need of financial innovation is high in current scenario, the need for highly qualified people with specific training in financial engineering continues to grow in all market environments.

Artificial Intelligence in Finance Sector

By: Tharun

Reg No-1828819

Along with various money related innovation in start-up businesses, companies have additionally swung to AI to supplement and bolster their administrations. In Hong Kong, portable keeping money start-up Neat intends to apply machine learning innovation to examine clients' instalment information. Likewise, in Berlin, portable keeping money start-up Number26 has thought about utilizing AI in an unexpected way. Self-charged "Europe's most present-day bank", the organization as of now utilizes AI similar to Neat, by observing client instalment action, offering social bits of knowledge and proposals

As per the BBC, machines as of now oversee the greater part of Wall Street's action. Exchanging times have been reduced from seconds to milliseconds. Charles Schwab and United Bank of Scotland have started to exhort their customers by means of AI calculations. Schwab Intelligent Portfolio's clients first round out a questionnaire to recognize their venture aims and antipathy for hazard. Money related administration firms utilize AI calculations to manufacture and deal with clients' portfolios. Information mining- these AI are equipped for searching through troves of information to distinguish examples and deviations that may connote deceitful action.

One of the more fascinating ongoing uses of AI in protection includes a mix of AI and IoT called as "Depiction". Progressive's most recent IoT gadget sits in a driver's glove box and recognizes an assortment of vehicle information, including: Speed of increasing speed, Speed of deceleration, Aggressiveness of turns and Distances voyaged. Robo-counsellor Wealth front tracks account movement utilizing AI capacities to dissect and see how account holders spend, contribute, and settle on money related choices, so they can redo the guidance they give their clients.

JPMorgan Chase's Contract Intelligence (COiN) stage utilizes picture acknowledgment programming to dissect authoritative reports and concentrate critical information focuses and provisions in short order, contrasted with the 360,000 hours it takes to physically audit 12,000

yearly business credit assertions. Wells Fargo began guiding an AI-driven chatbot that talks with customers to give account information and empowers customers to reset their passwords through Facebook Messenger in April 2017. Moreover, Bank of America reported a $3 billion advancement spending design in 2016.

NPA – THE CHALLENGE FOR BANKING SECTOR

By: Rashika P

Reg No-1828835

A non-performing asset, or basically a NPA, is characterized as a credit obligation for which the interest or the instalment of the central amount or both has stayed overdue for a predefined timeframe. At the end of the day, an asset becomes a non-performing, when it has halted to generate income from the borrower for the lender of the asset. It was decided at the end of Financial Year 2003-2004 to define an "elegance time frame overdue norm" for distinguishing a NPA. The period was decided to be of 90 days. Thereafter with effect from 31st March 2004, a non-performing asset is defined as a loan which remains unpaid for at least 90 days. A loan in this respect can be categorised as follows:

- On account of a term loan, instalment of vital or interest or both stay overdue, surpassing the elegance time of 90 days
- On account of consumer loans, any sum that is receivable stays overdue surpassing the effortlessness time of 180 days
- On account of an Overdraft (OD) or Cash Credit (CC) or Export Packing Credit (EPC) or Pre-shipment Credit in Foreign Currency (PCFC), the record stays inactive or out of request surpassing the effortlessness time of 90 days
- On account of Cash Credit Facility, pending of accommodation of stock explanations for three ceaseless quarters
- On account of discounted and acquired bills, the bill stays overdue surpassing the effortlessness time of 90 days
- On account of a loan or a progress allowed for reasons for agriculture, instalment of central or interest or both stay overdue for two harvest seasons yet for a period not surpassing two date-book years

- On account of different records, any sum that is receivable stays overdue surpassing the effortlessness time of 90 days

Non-performing assets can be additionally ordered into the three classes:

Sub-standard assets-A sub-standard asset is an asset that has remained as a non-performing asset for a period that is less than 12 months.

Farfetched assets-A farfetched asset is an asset that has remained as a non-performing asset for a period that is more than 12 months.

Loss assets-A loss asset is an asset in which the loss has been recognized by the bank, national bank controllers, and either internal or external inspectors. Those assets which can't be recovered are recognised as loss assets. For such loans, recovery process is initiated by notifying the defaulter legally. After a sufficient period of time as per the notice, a bank may attempt to recover its money by foreclosing on the property that was utilized as collateral for the loan.

What it may lead to?

The increase in the number of non-performing assets of banks will not encourage banks to lend as there would be uncertainty in the recovery of the money. This will create a shortage of funds in the Indian securities market, which in turn would lower the market confidence. The interest rates will rise sharply due to lower credit flow and high-risk factor. With banks doing less business and concentrating on safe projects, the top line will be affected drastically. This would reduce the shareholder's wealth, and in turn less capital would be left for providing any buffer. Retail consumers have to bear a higher cost on their housing loans, car loans, etc. Thus, it will bring about a lower growth rate, higher cost of capital and higher inflation which may turn into a cyclic process, bringing about a profound financial emergency.

Finometrics Puzzles

1. I want to invest in stocks, but I don’t want to be a sheep. What do I mean by sheep here?
2. I have something through which I can convert my interest payments into dividend. What do I have?
3. I lend Rs 200000 to my nephew, who promised a return of Rs 240000 after two years. My wife called me an idiot when I said that I was earning a CAGR of 10% per annum. Can you calculate my CAGR?
4. Can a debenture be issued for less than a year?
5. I buy bank’s bad loans. Who am I?

Answers:

1 sheep refers to the retail investors who move in the herd. They enter the market after the market effect, i.e, when bulls or bears exit;

2. Warrants; 3.

9.54%;

4. Yes;

5. Asset Reconstruction Companies

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