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UNIVERSITY
BANGALORE, INDIA

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FINOMETRICS

DEPARTMENT OF MANAGEMENT
STUDIES

VOL : 3 (10)

MARCH 2013



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Managing Growth

Although financial risk has increased significantly in recent years, risk and risk management are not contemporary issues. The result of increasingly global markets is that risk may originate with events thousands of miles away that have nothing to do with the domestic market. Information is available instantaneously, which means that change, and subsequent market reactions, occur very quickly. The economic climate and markets can be affected.

- **What Is Risk?**

Risk provides the basis for opportunity. The terms risk and exposure have subtle differences in their meaning. Risk refers to the probability of loss, while exposure is the possibility of loss, although they are often used interchangeably. Risk arises as a result of exposure

- **How Does Financial Risk Arise?**

Financial risk arises through countless transactions of a financial nature, including sales and purchases, investments and loans, and various other business activities. It can arise as a result of legal transactions, new projects, mergers and acquisitions, debt financing, the energy component of costs, or through the activities of management, stakeholders, competitors, foreign governments, or weather. When financial prices change dramatically, it can increase costs, reduce revenues, or otherwise adversely impact the profitability of an organization. Financial fluctuations may make it more difficult to plan and budget, price goods and services, and allocate capital.

There are three main sources of financial risk:

1. Financial risks arising from an organization's exposure to changes in market prices, such as interest rates, exchange rates, and commodity prices
2. Financial risks arising from the actions of, and transactions with, other organizations such as vendors, customers, and counterparties in derivatives transactions
3. Financial risks resulting from internal actions or failures of the organization, particularly people, processes, and systems

In today's world the growth of a business is critical and is challenging. With inflation adamant of not coming towards south and travelling north direction, RBI hiking the rates (further rate hike on the cards), economy is not so stable, Forex not steady, heavy competition, the business is put to lot of stress on its growth aspects and increase the risk factors.

Factors for growth of a business are:-

- i. **Strong business strategy:** The business should have a strong strategy for its growth, either organic or inorganic.
- ii. **Top line v Bottom-line:** It should be clear on the growth aspects, do not ignore the bottom-line for the top line growth.
- iii. **Market leadership:** Unless you are a leader it is difficult to sustain the growth.
- iv. **Differentiator:** Not only a leader, but you need to be a differentiator with your product or services.
- v. **Sound financial position:** Financial prudence is critical for a business growth. Have a good finance practice.
- vi. **Diversify known businesses:** Do not diversify into unknown areas or unrelated areas. This will put strain on the management, as they have to spend time on the new one and focus will be lost on the existing business.

Challenges for growth

It is easy to prescribe the factors for growth. Is it something that can be achieved, so easily? There are challenges to that.

- **No / Lack of strategy:** In most of the cases, the strategy was missing or not being clear. This is very critical for growth.
- **Communicating the strategy:** Having a clear strategy is not that important. It has to be communicated to the stakeholders and should have their buy-ins.
- **Personal v Professional aspirations:** Sometimes, the professional vs the personal aspirations come in the way of growth. This is true in case of a person driven business.

Mitigating risk

The Biggest Risk is not Knowing the Risk- If one do not know the risk, better know it. Ignorance will not help here. Categorize the risk as CFOS.

- **Compliance risk** – something this will destabilize a business (e.g. Pollution control)
- **Financial risk** – if one does not have their homework done properly in this area, then theirs trouble. Example: Mix of Debt/Equity, not generating cash, borrowing at high rate (higher than your business return) etc.
- **Operational risks**– Destruction of facility, non-availability of resources etc., A good disaster recovery plan / Business Continuity Management Program will help a long way in mitigating this risk.
- **Strategic risk** – if strategy itself is not correct, one cannot expect to grow. It should be one that could be initiated efficiently. Review it periodically.

To sum up, the following points have to be kept in mind:

- 1.Focus on your strategy
- 2.Engage customers – they are the one who gives you the business to grow.
- 3.Engage employees – they are the one who helps you to achieve the business requirements.
- 4.No compromise on quality – AT ANY COST. If one compromise, then lose even your existing business.
- 5.Open to change- Be open to change. Traditional working will not work for long.
- 6.Monitor the external environment – this is critical as it has direct impact on business.
- 7.Diversify – in known businesses and do not lose focus on the core business.

Portfolio Management

A Portfolio Management refers to the science of analyzing the strengths, weaknesses, opportunities and threats for performing wide range of activities related to the one's portfolio for maximizing the return at a given risk. It helps in making selection of Debt Vs Equity, Growth Vs Safety, and various other tradeoffs.

Major tasks involved with Portfolio Management are as follows.

- Taking decisions about investment mix and policy
- Matching investments to objectives
- Asset allocation for individuals and institution
- Balancing risk against performance

Types of Portfolio Management

Portfolio Management is further of the following types:

- **Active Portfolio Management:** As the name suggests, in an active portfolio management service, the portfolio managers are actively involved in buying and selling of securities to ensure maximum profits to individuals.
- **Passive Portfolio Management:** In a passive portfolio management, the portfolio manager deals with a fixed portfolio designed to match the current market scenario.

OPTIMAL PORTFOLIO-

Also known as an efficient portfolio, an optimal portfolio is a collection of assets that are adequately helping an investor to reach his or her financial goals. A portfolio of this type is configured to include assets that the investor feels comfortable with, and that carry a level of risk that fits in well with the overall investment strategy that the investor employs. Many investors find that an optimal portfolio will include a range of investment options.

The idea is that including several different types of investments helps to balance the portfolio in such a way that incurring a loss is less likely. For example, some would consider an optimal portfolio strategy to be the inclusion of a mixture of stocks with low, medium, and high rates of volatility, several bond issues, and a commodity or two. When one type of investment is experiencing some degree of downturn, the other types provide stability to the portfolio, with gains in the other sectors offsetting any losses in the one area.

To construct and optimal portfolio-

1. **Establish investment goals-** Before risking hard-earned money, establish specific future goals.
2. **Determine time horizon-** Time horizon denotes the end of investment plan and indicates the point at which one will begin withdrawing the money. Longer time horizons allow one to take greater risks; if a particular investment choice fails to perform positively, enough time exists to recover those losses before one actually need the money.
3. **Determine the risk tolerance-**Not all investments are suitable for all investors.

4. **Choose investments**- Based on goals, time horizon and risk tolerance, choose investment types that offer the greatest possibility for positive earnings along with the smallest possibility for a decrease in value. For example, a young, aggressive investor might be completely comfortable owning a portfolio comprising international small-cap stocks. Conversely, an elderly investor with a conservative risk tolerance might only be comfortable with a portfolio comprising fixed-income instruments.
5. **Monitor the performance**-Once investment selections is made, one should conduct regular reviews and evaluate the performance of the portfolio.
6. **Rebalance the account**- Over time, the positive and negative performance of each investment choice results in that particular vehicle comprising a different percentage of total account than what was originally arranged. To maintain an optimal portfolio tailored to your time horizon and risk tolerance, redistribute the money among the investments to recreate the original asset allocation.

Should we Young elect the Young

“Well said, my friend”, when I raised this doubt of to whom we should elect through these elections. The population in India consists of majority of youth and the voters list comprises most of them in the voters list. Now, the whole confusion is that who we should elect. “We don’t find anybody of our age, friend”. India is said to be the country of the young minds. A young India!

The young India has been surprising in their choices of leaders, they really haven’t rushed to make a decision and take a call on their own. But the youth presence has made lot of impact in the elections held round in any part of the country. Be it from holding the banner of the party to distributing those pamphlets of the campaign all around the constituency to guarding the leader from the rush of the public to chanting slogans for the party. All the ways we the youth mark our presence.

Not until Rahul Gandhi made his presence, the country never noted about its youth and its power. The country marked him as the “Youth Icon” of the country; he was marked as the future of the country. This also helped in youth being nominated for the most important positions both the party and country level of politics. Youth were regarded as the most influential people for the decision making process of the important decisions in the country.

Over the last two decades, several significant changes have taken place in the society, which need to be taken on board while looking at this demographic way. The desire for better life has always been the top priority for the youth in the country, and the serving the society has also held top slot for the same. The olden ages of politics had the youth fighting for the society with khadhis and dhothis as their attire, now we all are fighting for the same cause with our denims. Most of the social injustice is agitated first by the youth, gaining the most of the support of the country and finding a solution for the same.

With various factors affecting the society leading most of the youth to the urban community, also provides an opportunity to explain what they have faced in their community. Youth have never learnt to silent and would never be silent over any wrong happening round them. The country has always been in receipt with young people being the face of any revolution in the country. But the revolution has never seen the light, but none of these have light forever. Praying that the country would wake up to the leadership of the youth, in future.

Working Capital Of Firms

Among the several factors that investors can look forward is the working capital of the company. This is because it is an important parameter to judge its operational efficiency as it represents the liquidity available. Working capital is calculated by deducting the company's current liabilities from its current assets. Positive working capital means that the company can pay off its short-term liabilities comfortably, while a negative figure obviously means that the company's liabilities are high.

However there are exceptions to this rule. A number of companies have negative working capital year after year –the answer to this is simply -because they can. Typically, large companies have a consistent negative working capital since they have the muscle power and can demand longer credit periods from their suppliers. They are also able to make sales in cash or collect payments within a few days. Whatsoever the case may be, but it seems to be a profitable position to be in.

To understand this better, we can consider the case of a trader who buys goods on a credit card that has a cycle of 40 days. If he can sell all his goods and collect the proceeds within a month's time, he can roll the money till the card payment due date. This implies that he can invest for the short term and make additional profit on it. The negative working capital scenario depends on a number of factors not restricted to size of the company, but also on the kind of business. "Negative working capital is visible in companies with strong brand and consumer franchise, which is why it is mostly seen in the consumer sector," says VetriSubramaniam, CIO, Religare Mutual Fund. On the sectoral front, telecom companies lead the way. It may seem confusing on the part that how can a capital-intensive sector have negative working capital; however it could be accepted because- Firstly, the sector does not require raw material. Secondly, most of the capital requirements like licence fee, spectrum cost, tower installation cost, etc., are taken care of at the initial stage. Finally, advance is collected by these companies in the form of prepaid connections, and from postpaid customers, without much delay.

Aviation is another one of that industry which has negative working capital, since the amount is collected months before in advance until the actual transport is done. However, aviation isn't a good bet now. "The negative working capital may not be of much relevance, since the sector is heavily in debt currently, ". The domestic aviation industry is also faced with several other problems like high fuel cost, over capacity, high charges by the airports etc. Some industries such as the FMCG are known for generating fast cash. They have a very high negative working capital, may be because their strong brand loyalty that helps them to maintain a low inventory as well as generate sales at pace. Since these large companies have a high bargaining power, they are also able to extract favorable terms from their suppliers.

The products are sold to the customers and the cash generated even before the company pays its suppliers. The additional cash generated can be utilized for other purposes. FMCG majors are fundamentally strong and well-managed companies, however retail investors should avoid them for now because most of them are quoting at very high valuations. "Most FMCG stocks are overpriced now. However, if one wants to invest for the long term, one can buy shares of ITC, since it's an original business, cigarettes, and it will continue to generate cash in the future as well. According to Tandon the other two industries or businesses i.e. Food and hotel, where ITC is has been making investment for some time, should be able to generate sufficient cash flow in the future period.

Some Other parameters

It's true that negative working capital can be used as a screening criterion; however it's not the final stock selection tool. An Investor should look into other criteria before making any decision. The most important is the ability to extract the one from sectors that don't offer very high operating margins. Some capital-intensive businesses may have negative working capital. Investors should look at those where the need for fixed capital is also less.

Investors should also check whether the company can generate free cash flow, along with negative working capital. Free cash flow is calculated as operating cash flow minus capital expenditure. Therefore free cash flow represents the cash that a company has even after using the money required to maintain or expand its asset base. It's a crucial aspect for raising shareholder value as it allows a firm to pursue opportunities, develop new products or to make acquisitions without the capital dilution.

India's Infrastructure sector and Investment Opportunity

India being counted as one of the developing countries has witnessed significant expansion over the last few decades. The main reason being in increase in investment for infrastructure as a percentage of GDP increased from 4.9% in 2002-03 to above 7-2% in 2011-12 and is expected to reach 10% of GDP by 2016-17. Public Private Partnerships have emerged as a successful catalyst for implementation of various commercially viable infrastructure projects in many sectors. Majority of investment for infrastructure sector has come from private investment. In the last five year plan \$185 billion has come from private sector. Looking at this, the government of India is expecting \$453 billion from private sources, including Foreign direct investment.

Government has adopted a new approach with PPP as the cornerstone of its policy framework due to more investment contribution from the private sector. It has launched 'Viability Gap Funding', which is a scheme to enhance the financial viability of competitively bid infrastructure projects. Apart from this it has also taken measures like constituting new regulatory authorities in telecom, power and airport sector, setting up Cabinet committee on investments to monitor completion of large projects. Indian Infrastructure has one of the largest PPP markets in the world. Around 2000 projects are either complete or underway as of 2011. PPP infrastructure has moved from core sector and has now entered into sectors like Health and Education. India has all the opportunity to explore in consulting, project planning, design and construction and markets like Water distribution, urban transport and many more. UK companies can share their experiences and practices in areas like life cycle costing of Infrastructure projects, allocation of risks to the private sector, value and quality of the infrastructure asset over life, transparency mechanisms and other areas which would help India's infrastructure to explore and development of various sector providing a better opportunity for development of the country and also better returns for the investment made by the private sector encouraging more private partnership in development of the economy.

FOREX

Forex, it's a function in the world and I'll tell you opportunity even Forex traders don't know about. Forex is an acronym for Foreign Exchange. It's the largest market in the world with an estimated daily trading volume of \$4trillion. The UNITED STATES has the biggest economy in the world at \$14trillion per year. The Forex market moves that amount every 4days. The Forex is a network of 1000s of banks in the world, with no central location- there's nobody in charge. The primary function of the Forex is to determine the fair value of a currency. If you were from the US and travelled to Japan to explore the countryside. You'd need their local currency to buy things, so you'd go to a bank or an exchange office and trade your US dollar for yen. How would you know what a fair rate of exchange is? How do they know they're not giving you too much, and how do you know you're getting enough? There's only one way to know and that's by looking at the rate of exchange in the Forex market.

The fair exchange rate is not determined by an individual, a business, a country, or even a group of countries. The price is set by all of the buyers and sellers of the world in real time. It's the most accurate pricing you can get in the market because it's nearly impossible to manipulate. It's just too big. Currencies are traded in pairs. The Japanese currency and US currency are traded as a pair, represented by USD/JPY. If the US dollar is moving up in price, then the yen is moving down in value by exactly the same amount. Just think of an old scale where you place weight on one side and that side goes down. The other side goes up by exactly the same amount because currencies are traded in pairs, you can sell either buy or sell -there is no difference. Buy the EUR/USD, sell the EUR/USD. It's the same thing. Here are countless factors that can and do cause price movement.

Increasing the supply of money decreases the value of currency because now there's more money, but the same amount of goods and services, likewise, good news about the future could cause speculation about a better economy and this could cause price to rise. Exactly how does a Forex market determine a fair price? The market operates on the principle of "supply and demand" imagine you want to sell your car... If you search around locally, you'll likely find examples of your car with comparable features. If the number of people who want your car is greater than the number of cars available price will rise. If there are more people selling your car than buying your car the price will fall? At any given moment in the Forex, if the volume is greater in favour of the buyers the price is rising.

If the volume is greater for the sellers, the price is falling. There are many different types of participants in this market who might use the market for different purposes, hedge funds, for example, may have a more complex strategy. When they buy a currency, it may be one part of an overall plan to capture inefficiencies in the market place at large. Multi-national corporations may be exchanging large sums of currency for payroll. Commercial banks might be protecting the value of their asset, hedging a drop of one currency value against the rise of another.

In 2001, the platforms for personal computers became stabilized and reliable. This opened the door to anyone with a personal computer. I think that most people are attracted to this opportunity because it offers freedom and flexibility unlike anything we've seen and it has truly unique features. It takes the same skill to make \$10a day ,as it is to make \$1000a day because of this and the fact that you can start trading with as little as \$300. Tens of thousands of people from all walks of life have come to try their hand at Forex trading.

The basic proposition is pretty compelling... The market can only go two directions, up or down. Since the market can only go two directions, you basically have a 50/50 chance of being correct, knowing nothing at all. Therefore if you had some knowledge you could increase your probability of success. This is accomplished with another principle. HUMAN BEHAVIOUR is Repetitive because human behavior is repetitive we can observe human behavior and predict with great accuracy what people are likely to do in the future think of traffic patterns if you mapped traffic each day near a city you would begin to see certain patterns repeat over and over again an obvious 1 would be how congested things get at rush hour if you continued to watch you would also see other patterns too. You'd notice that big trucks tend to drive in a lane particular lane. This is no different from the patterns in the Forex market because human beings cannot escape their tendency to repeat patterns so as buyers buy and sellers sell behavior patterns emerge when these patterns form again in the future. We can know with a high degree of probability what will happen next. It's easy to see patterns that predict price direction 70,80,and even 90%of the time.

Now if you add the concept of money management you can control the size of your wins and the size of your losses. If I risk one dollar to make two dollars in each trade something interesting happens. My pattern of success rate is 70% but I only need to be right just over 33%of the time to make a profit. This is an opportunity that even most Forex traders don't know about you see most traders in the world are focused on exactly what i told you they use the high probability pattern and they use good money management and what is their result? They fail you're never going to make money over time trading Forex by focusing on information about the market "a penny saved is a penny earned", they say in other words, it doesn't matter if you make \$10,000a month if you spend it all and have nothing to show for it so "when you save money, you make money" and everything to do with the decision you make 95%of the traders in the world focus on "the market" a successful trader focuses on "their plan".

Dollar and its fame

Currency was made on mother earth as a medium for the goods bought and sold between two parties. Different countries formed different kinds of currencies worth different values in accordance with their demography. Now, the highest worth of currency reigned to be the most important currency on the earth. And the United States promoted “Dollar” was selected to be the top most rated currency which the world holds as the most important currency to trade with.

A striking fact when most of the deals happening in and around the world have been dealt with the currency “Dollar”. The most finance that flows around the world also has been the same. And most the banks round the world fund their activities through dollar, and the funding to various markets is done through this paper. The large foot-print of global banks in dollar funding and lending markets raises several questions. Dollar takes the presence of the global banks in dollar loan markets as a given, and explores the consequences of this arrangement for the variation of credit in the credit supply across the globe. We can see that the large share of the dollar denominated lending happens in the European banks and the markets. We are very much alive in the market which is dominated by this same currency from ages. We are also part of the system, in which such banks cut dollar lending more than Euro lending in response to a shock to their credit quality. Because these banks rely on their wholesale dollar funding.

At the same time, the banks can borrow in Euros and swap the same and make to the dollar shortage in the bank, but these leads to the violations of covered interest parity (CIP). This is because of the limited capital to take the other side of the swap trade.

Here this kind of exchanging becomes expensive, which causes cut in the dollar lending rate becomes expensive which causes cut in the dollar lending. We test the above model in the context of Eurozone sovereign crisis, which escalated in the second half of 2011 and resulted in the US money market funds sharply reducing the funding, provided to European banks. Coincident with the contraction in dollar funding, there were significant violation of Euro-dollar CIP.

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