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THEME OF THE MONTH

**ECONOMIC SLOWDOWN
AND ITS IMPACT**

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FUNDAMENTAL ANALYSIS BACK IN THE LIMELIGHT DURING TURBULENT TIMES

By Megha B



The basic premise of investing as taught in corporate finance classes is to assess the present value of all future cash flows one could generate from the investment at the required rate of return and if this value is lower than the investment required, only then we consider the investing option. However, the risk in this approach is based on the investor's ability to predict the future – both in terms of projected cash flows and the risk involved. Would it have been possible for an investor in the 1990s to predict the impact of technology in the 21st century? Who could have predicted the scam in one of the biggest Indian companies leading to the crashing of share prices? Is it advisable to predict the future value of your investment when the economy is never so predictable?

When we make forecasts, we are layering probability on top of probability. Every time by adding another possible outcome, the chances of that chain of events happening are reduced. We can create a narrative that seems to make absolute sense but has several probabilistic events that have to land in our favour for that chain to get to the end. Considering the unpredictability in long-term investing it is of no surprise that the majority of forecasts turn out to be incorrect, and anyone who invests on their basis is usually likely to do below average. Moreover, those who do make good returns based on the forecast often fail to repeat their success. So how do we tackle this situation? Do we blindly follow our instincts, or is it necessary for the investor to focus on the fundamentals of the companies before leaping forward?

The above questions are particularly relevant during tough economic times as companies figure out new ways to generate income and cut costs. While the cost of the assets is not increasing when a company is in financial distress, money borrowed to finance the assets may become more expensive. It is not uncommon for financial institutions and banks to increase the rate charged for borrowed funds when a company is in financial distress. The extent of this impact differs depending on the company's characteristics, which further complicates predicting the future.

The finest time-tested approach for the investors is to attempt to construct a portfolio which is sturdy enough to weather a variety of possible outcomes. If we knew with certainty that one asset class would outperform all other asset classes, of course that is where you would put all your resources. But we are not certain. We need to be humble. Diversification is an expression of that humility. While an investor may wish to weigh his portfolio more to one expected outcome, the portfolio should still be balanced and diversified enough to hold up relatively well should those predictions turn out to be mistaken. To conclude, the knowledge we have about the investment option has more significance in the long-run, than the prediction and analysis of future values.

SILVER LINING – REVIVAL OF THE INSURANCE INDUSTRY IN INDIA

By Raghav Bansal

Life is punctuated with numerous memorable moments making it an endless list of both good and bad memories. To ensure that we are better prepared for all the unforeseen circumstances, one needs to invest in plans to protect their loved ones. The uncertainty in the current economic environment has renewed the need for long-term planning, especially among the youth.



In contrast to the overall economic slowdown, the insurance market has witnessed a steady growth in demand during the last five years. The primary reasons cited by the industry for this surprising growth are:

- The slowdown of the economy stimulated this sector as people started having a sense of fear regarding their long-term income security. They started investing in policies that offer a monthly premium redemption after maturity.
- New consumer protection and prevention of misselling guidelines introduced by the insurance sector regulator, the Insurance Regulatory and Development Authority of India (IRDAI), has increased transparency in sales.
- The younger earning population in India is increasingly considering insurance policies as a tax saving option, largely due to the promotional activities.
- The introduction of numerous market-linked insurance plans has raised interest from investors targeting twin benefits of insurance and investment.

To capitalize on the growing demand for insurance products in the market, major players in the insurance market have introduced structured products for different customer segments. For example, HDFC launched “Sanchay Par Advantage Product,” bundling benefits such as life cover, tax benefits, annual payment return benefits and a non-guaranteed terminal bonus, along with an immediate income option. Such products make one feel safer and more beneficial to invest in as they secure your future while also providing returns.

Considering the steady growth of the sector, major life insurance players such as ICICI Prudential, HDFC Life, and SBI Life are expected to expand their business operations through improved distribution networks, launch new products, charge robust premiums and increase margin gains. The amount of business growth in terms of sales is expected to be in the range of 14-17%.

The increased competition in the insurance market is good news for the customers as more products will enter the market at competitive premiums. Every policy is unique in itself, and in order to have maximum benefits, one should select the policy judiciously. It is better to understand the insurance products and invest in it when you are younger as the premium are directly proportional to the age of the investor..

PPF AS A LONG-TERM INVESTMENT OPTION – IN THE WORLD OF EQUITY, BONDS AND MUTUAL FUNDS

By Sistla Sai Charan



“Investments” and “Savings” are the common buzz words you will listen to when you start earning. Investment is an act of allocating money in a financial instrument with anticipation of a positive return. Whenever we hear about investment, we mostly talk about equity markets, stock markets, bonds and debentures, where there is a certain amount of risk involved. Though the newbies in the taxable income category are familiar with the capital market investment options, Public Provident Fund (PPF) remains the most unexplored source of investment among the youth today.

PPF is a savings scheme for financing long-term goals such as children’s higher education, marriage, and retirement. The private-sector employees are not entitled to receive pension post-retirement, and hence building a corpus to finance retirement is an important consideration. For building the lump-sum retirement corpus, a risk-free investment option is required. PPF offers a long-time risk-free investment with guarantee of the Government of India backing both the principal and interest. It is the only government scheme where the interest income and principal are fully exempt from income tax under Sec 80C.

How does this scheme work?

In a financial year, a subscriber can invest a minimum of Rs.500 and a maximum of Rs.1.5 lakh towards a PPF account. With the latest change in rules of PPF scheme 2019, one can make deposits in multiples of Rs.50 any number of times in a financial year. Other than the tax exemption, the key advantages of the PPF scheme are the interest rate and the lock-in period. PPF offers a competitive compounded interest rate which is reviewed by the government every quarter. The current interest rate is 7.9%. Further, according to the PPF rules, a subscriber is permitted to close a PPF account only after its maturity, which is 15 years, leading to a lock-in period. The subscriber has the option of renewing the tenure for a block period of 5 years beyond the maturity period.

To understand the power of compounding, suppose you invest Rs.1.5 lakh/year in the PPF account for a lock-in period of 15 years. Assuming the interest rate remains at 7.9%, your investment can grow up to Rs.43,50,547 after 15 years. Also, your annual investment of Rs 1.5 lakh in PPF account can grow up to around Rs.70 lakh and Rs.1.1 crores in 20 and 25 years, respectively. Unlike capital appreciation tax payable on capital market assets and fixed deposits, the lump sum amount received at the end of 15, 20 or 25 years is fully exempt from taxation. PPF is the safest bet among all the long term investments prevailing in the current market. It is never a bad time to start investing in PPF.

WHAT DO COMPANIES DO WITH THEIR CASH SURPLUS?

By Shalvi Sinha

Cash surplus is a situation when the company's cash inflow exceeds its cash outflow. Cash is a good-to-have current asset; however, higher idle cash in the balance sheet could indicate weak resource management.

Following the objective of maximizing shareholder return, the management should ensure optimum

use of its cash surplus. In this article, we discuss the disadvantages of cash surplus and the different ways in which companies manage their cash surplus, namely paying back debt, investing back in the business, buying back stock, and building cash reserves.



What is wrong with idle cash?

The most significant disadvantage of holding excess cash is the opportunity cost as idle cash has diminishing purchasing power because of inflation. Cash and cash equivalents, including cash held in a business checking account, certificates of deposit and short-term bonds rarely generate enough return to overcome inflation. Hence, these are considered low-risk, low-return options. For a fast-growing business, reinvesting the cash into the business could generate better returns than investing in a checking account, earning 1-2% interest. Further, holding excess cash can lull you into a false sense of security that may lead to careless spending. That feeling of overconfidence might cause you to commit cash to projects without adequate market research. When you have a tighter cash flow, you may think through your spending more carefully and keep your costs lower. When you have a large cash reserve, you may ignore rising costs.

What can companies do?

One option is to pay back interest bearing debt in the company's balance sheet. This is a logical alternative to keeping idle cash as short-term investment options are not likely to yield a return higher than the rate of interest on outstanding debt. However, the decision to automatically pay down debt may not be correct in all cases. The financial manager would need to work the optimum capital structure for his business before deciding to pay back the debt.

Another option is to invest the cash surplus back in the business. This strategy is particularly relevant for growing companies that need fresh capital investment in expansion and the choice is between raising capital through external financing or using cash reserves. The need for capital arises when the company is expanding its business, purchasing new property/equipment, working capital requirements, or sailing through a normal seasonal down period. Whatever the reason, preparing a cash flow budget is the best way of predicting these future needs for cash. With at least some indication of future cash needs, one can make informed decisions regarding the best way to finance those needs. According to the Pecking Order theory, companies typically prefer to utilize internal resources before taking capital from external sources. For companies that have lower growth trajectories, the surplus cash can be invested in growing entities or investment options that provide higher returns. The choice of investment option and amount of investment would depend on the risk, liquidity, maturity and yield

REFORMS TARGET PLUGGING LEAKS IN THE TAX UMBRELLA

By Aruna B Reddy



An analysis shows that the top 5% of effective tax-payers, which is equivalent to 0.1% of the population of India, contribute nearly three-fifths of India's income tax collections. How did we reach this stage where a minority of the population is financing the fiscal budget?

To understand this, we need to go back to 1947 when India gained her independence. The demand at that time was to follow a socialist economy, with priority given to the welfare of its citizens. To achieve this objective, the government played a major role in the allocation of resources, production, and markets. Private sector participation in the economy was minimal with any producer requiring a license to enter the market. This led to inefficient public monopolies, unmet demand for goods and services and low foreign reserves. During this time, aptly called the 'license raj,' the unorganized sector started mushrooming without a government license. Though the 'license raj' era came to an end in 1991 with the liberalization of the economy, various governments have been trying to bring the unorganized sector under the tax bracket.

One of the prominent reforms in this direction was the introduction of Goods and Services Tax (GST). GST ensured that all the suppliers across the supply chain is brought under the tax umbrella. Some of the other tax reforms introduced by the Indian Government in recent years targeting to broaden the tax umbrella and increase the tax-based revenues include: (1) A 10% long-term capital gains tax from the transfer of listed equity shares or units of an equity-oriented fund or unit of business trust if such incomes are above 1 lakh, (2) Increased cess on personal income tax and corporation tax to 4 percent from 3 percent in 2017, and (3) The government introduced a 10% Dividend Distribution Tax (DDT) on dividend options of equity funds.

The Tax department has also taken up few taxpayer-friendly initiatives to increase the number. For example, the department has rolled out faceless e-assessment scheme with the intention to eliminate personal interaction between a taxpayer and tax officers, to safeguard taxpayers from phishing emails and fake tax notices and the income tax department launched a pilot project to provide an 'instant' Aadhaar-based PAN allotment service for individuals seeking to obtain a unique identity for the first time. Further, with effect from 1 September 2019, the Aadhaar number can be used interchangeably in place of PAN.

The reforms have helped in increasing the number of taxpayers, which went up by 16% in 2018, as compared to 2017. The income tax department has also witnessed a substantial jump in the e-filing of ITRs with a record-breaking filing of almost 5 million returns in a single day on the last day i.e. 31 August 2019.

SIP (SYSTEMATIC INVESTMENT PLAN) AS A VIABLE INVESTMENT OPTION

By Athira Vijayan



Systematic Investment Plan (SIP) is emerging as one of the smartest ways of investing. Under this scheme, a fixed amount of money, which is predetermined, will be deducted from the individual's account at fixed time intervals. The time intervals can be weekly, monthly, quarterly or annually, similar to the recurring deposit schemes. SIPs inculcate a systematic and regular investment habit. A major advantage of investing in SIP is that individuals can start investing in smaller amounts such as in 500 or 1000. This amount can be changed based on the income levels of the investor.

The process involved in SIP can be summarized as follows – 1) A fixed amount, as decided by the individual, is debited from the bank account, 2) Investors are allocated a certain number of units depending on the NAV (Net Asset Value), and 3) The units accumulate with each payment. SIPs are flexible in allowing the investors to withdraw money or stop payment at any point of time.

The familiarity and ease of using SIP make it popular among the younger generation. A study shows that most of the individuals that invest in mutual funds through SIP are in their 20s. Also, the fact that the investment amount every month could be as small as 500 or 1000 makes it the best option for young people who would have just started to earn.

Technology is also playing a major role in making SIP a popular investment option among investors. Investing in SIP could be easily done over the phone, without even personally going to a bank. The online promotion of the schemes is drawing the attention of the younger generation, who is now showing interest in investing. Moreover, SIP is one of the least risky ways of investing in capital markets. However, a new investor venturing into capital markets through the SIP route should be aware of certain pitfalls, such as (1) Investors typically start their SIP with small amounts. However, it is advisable to increase the SIP amount with an increase in their disposable income, (2) Resist investing large amounts in a single fund without analysing the past fund performance, and (3) Do not withdraw as soon as the SIP starts giving returns.

The value of SIP depends on the period for which the individual continues to invest. It is advisable to invest at least for 3-5 years as the SIP is capable of giving greater returns with longer tenure. SIP is one of the options of investing the money systematically and regularly. It makes itself a safe option as the investor could withdraw from the venture and take their money for emergencies. The younger generation is keen on investing their money for better returns with low risk. For this category of investors, SIPs allow planning for a secure future with systematic investment of amounts as low as 500.

WHAT DOES INDIA EXPECT FROM THE BUDGET 2020?

By Sajin Chandy Alex



The union budget of India, otherwise known as the annual budget, is presented in February so that it can come into effect from the start of the financial year from April. Indian equities represent investor perceptions of the economy, and it seems as though the investment community has less hope for India than for the rest of the world.

When one looks past top stocks, the outlook is not at all hopeful. Extraordinarily low-interest rates, set by central banks with extremely generous balance sheets, have helped global increase in equity markets and asset prices in general. This expansionary policy seems highly unlikely to be reversed any time soon. Foreign investors invested over 1 trillion rupees in Indian equities in 2019 alone. If that funding were to vanish because foreigners are losing faith in our ability to generate economic growth, Indian stock markets could be severely affected.

Top Indian equities are over-hyped for the current growth rates, and there is a massive deficit of trust with smaller firms. Also, Indian fixed-income securities with low yields are highly unattractive as higher inflation renders their actual returns exceptionally low. Indian equities are priced for growth which they do not have. It renders them a terrible bet, so in any event, having all of its assets in one geographic location is a blunder for any investor. One of the best investment decisions to be made now is to buy US equity through exchange-traded funds which are mainly focused on tech and other companies listed in NASDAQ. When it comes to commodities, gold is a valuable hedge against the sharp fall of the rupee, as well as against the political turmoil that does not seem to abate any time soon.

Some of the current problems faced by the economy now include a shortage of demand due to the slowdown that affects industry production because of which there is a drop in the GDP rate. The growth in nominal GDP was expected to be 12%; in fact, it was closer to 7%. However, the shortfall in the revenue is estimated at 2.5 trillion. Another recurring problem is the increase in the fiscal deficit. Therefore it would be reasonable to expect the headline fiscal deficit to grow from Rs 130,000 to Rs 200,000 crores, i.e., 0.6% to 1% of GDP. Due to the slowdown and low production, the rate of unemployment refuses to decrease.

In such a substandard scenario, governments should recognize the slowdown and provide a stirring stimulus to restore consumption growth in the economy. Already the industrial production estimates for November 2019 were up by 1.8 percent as compared to the negative growth of 4 percent for October 2019. The market expects reductions in personal income tax to ensure that the money falls into the hands of the public, which would stimulate the demand. This would, in effect, make greater use of industrial capacities, thus forcing the company to increase its production, which in turn increases employment.

The government will have to carefully classify projects across the nation that are ready to be introduced where the allocation of funds leads to rapid work and the consequent release of demand for goods and services into the economy. These projects or any other infrastructure projects should not be financed through disinvestment but rather through some other feasible sources.

Cutting the tax rate on goods and services would have a wide-ranging effect on virtually any person in that country and their purchasing power instantly. This would eventually increase the demand in the economy. If the 2020 budget is expansionary, it could carry the risk of an increase in bond yields, along with a weakening of rupees. Nonetheless, it is not an unacceptable idea as it could boost our reviving exports, and if competition can be intensified, Indian companies have proven their ability to access foreign funds.

DOES THE STOCK MARKET PERFORMANCE MIRROR THE ECONOMY?

By Asmita Gupta

Most of the time, it has been observed that the economy can be sluggish, but the stock market could be doing better. This mismatch in the economy could be short term and has led to a common perception this stock market and economic performance will often be aligned. Over the years, data collected have shown that major gains on the Sensex were co-related with the GDP growth of the country. However, there can be instances where the relationship between the stock market and economy is inversely proportional as well. Many may support the view that stock markets do not represent the complete picture of the economy. However, as mentioned earlier, whenever there was more than 50 % of annual return in the Sensex, it affected the Indian economy, which in turn was accompanied by the increase in the GDP growth rate. In 1985, when there were major policies and reforms in the country like de-licensing of the industries, the introduction of the value-added tax, the Sensex made 93%. Accompanied by this, GDP also moved to 5.25% in 1985, whereas in 1984 it was 3.82%. In 1988, the Sensex gained 50%, and the GDP increased by 9.6% that year.



The most important reform that changed the face of the Indian economy was in 1991, when liberalization happened. This year marked an important turning point for the Indian economy as foreign direct investments were opened, there was the deregulation of markets, and the tariffs were reduced. The Sensex made a profit of 82 % this year. Indian economy underwent a recession in 2008 when GDP was low at 3.89% and the Sensex lost 51%. However, it was revived by the government, and GDP went up to 8.48 % that year, while the Sensex gained 81%.

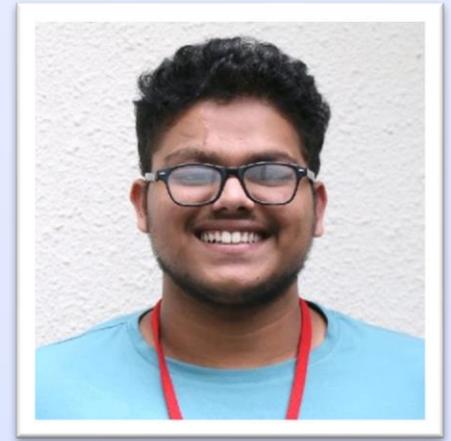
We can see gain in the stock market has been supported by an increase in GDP, yet it is not the only cause. We cannot vouch for the fact that decreasing GDP brings a slouch at stock market prices. Despite having stable economic growth, Sensex went down in 1995-96 and 2015. One reason might be due to the domestic scandals like Harshat Mehta scam and the Fodder scam of 1996 for the reason of slowdown. The economy has grown exponentially till 2000, post which there was a slow growth.

PwC has published the report saying that India will become the second-largest economy by 2050. As the growth rate becomes low, it will also affect the stock market prices as liquidity affects the money flow in the market. The foreign market affects the Sensex as India has significant imports. When the price of the stocks increases, people are more confident to purchase. More investors enter the market. Inversely, when stock prices fall, it bears a negative impact on the economy. Investors are wary of entering the market and people invest in low-risk assets that depress the economy. When there is a bull market, investments are more and companies issue IPO to sell their shares for capital. Also, most of the mergers and acquisitions take place during this phase. Contrary to this, when the stock market falls, there is an increase in the bond market because people tend to invest in gold or bonds during such times in hopes of better ROI.

We can conclude the fact that the stock market and the economy are not the same.

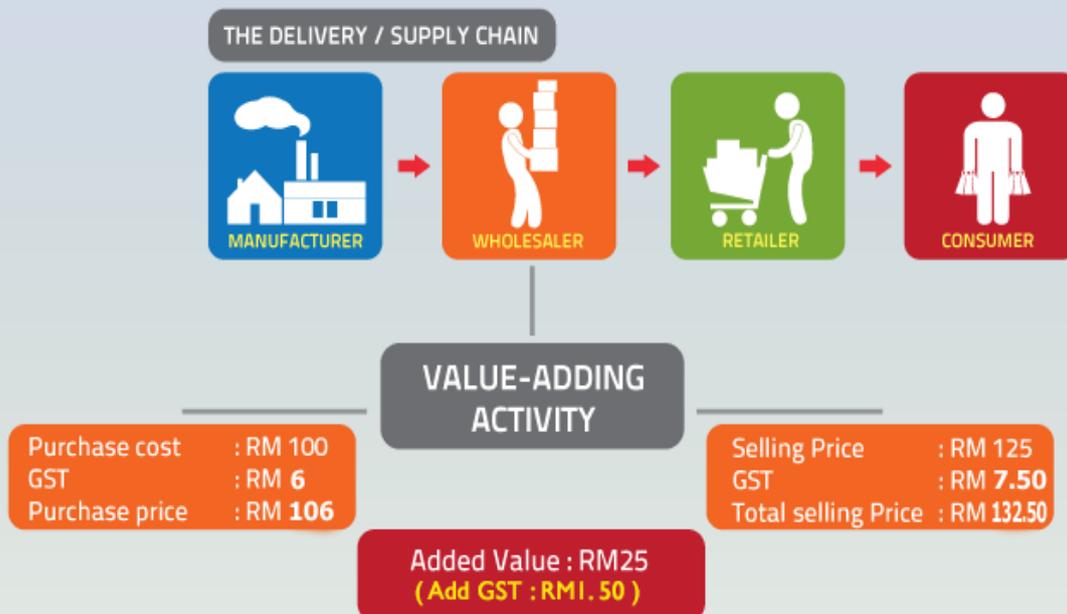
DO WE KNOW GST? – A BRIEF INTRODUCTION TO THE GOODS AND SERVICES TAX

By Rahul S Desai



Every Indian knows about GST the basic idea of GST is that it is a tax levied on all the goods and commodities consumed, but not many people know that it is a comprehensive tax replacing Central level VAT (Value Added Tax) and State level VATs. In fact, it has replaced all indirect taxes except the custom duty. It is a destination-based multi-stage tax with complete set off in all stages of the value chain; however, the consumer of the product still bears the complete burden of the tax.

GST has a long history to go. The concept was first introduced by the then Prime Minister in 2000, but it came into effect from 1st July 2017. It was implemented to reduce the ill effects of cascading or double taxation and pave the way for a single national market; ‘One Nation One Tax’ was its Mantra. The Centre has the authority to levy tax on the manufacture of goods (except for alcoholic liquor for human consumption, opium, drugs, etc.) whereas the States have the authority to levy tax on the sale of products. The Centre has the power to levy a tax (the Central Sales Tax) in the case of inter-state sales, but the tax is collected and retained entirely by the originating states. However, on services, the Centre alone is empowered to levy Service Tax. Since the States are not empowered to levy any tax on the sale or purchase of goods during imports and exports, the Centre levies and collects this tax in addition to the Basic Customs Duty. The Central Government will also have the power to levy excise duty on tobacco and tobacco products in addition to GST. The introduction of GST required constitutional amendments to empower the Centre and the States to levy and collect tax simultaneously.



*Notes : claim input tax credit

Let us understand how GST works

In the above graphic, suppose the rate of GST is 6%; the cost of manufacturing is Rs.100, so the price of the product would be Rs. 106. In the next stage wholesalers after adding the value of Rs.25 making a total of Rs 131. Now after this, the wholesaler will add GST of Rs 1.50 which will make the total amount of the product to Rs 132.50. However, he can get a refund of the GST that he has paid while purchasing the product from the manufacturer. Similarly, this chain goes to consumers.

The Government introduced this complicated tax system to simplify things, and to create a uniform tax system driven by IT. The whole GST system will be backed up by a comprehensive IT infrastructure.

Some of the salient features of GST are mentioned hereunder:

- It applies to the 'supply' of goods or services, unlike the present concept of the manufacture of goods or the sale of goods or the provision of services.
- It is based on the principle of destination-based consumption taxation, opposite to the present principle of origin-based taxation.
- It is a dual GST with a common base tax levied at the same time by the Centre and the States and is called CGST and SGST respectively; an Integrated GST (IGST) would be levied on inter-state supply of goods or services.
- Imports of goods or services would be considered as interstate products and, in addition to the customs duties applicable, would be subject to IGST.
- Exports are zero-rated supplies. Thus, goods or services sold would not be subject to production taxes or taxes on finished products.
- CGST, SGST & IGST would be levied at rates mutually agreed between the Centre and the Member States. The GST Council decided that GST would be levied at four rates, 5%, 12%, 16%, and 28%.
- The taxes paid at every stage of the value chain can be claimed back by the taxpayer once the subsequent payment is made to the next party in the value chain.

The Government has set up a Goods and Services Tax Network (GSTN) in this regard. However, it created a lot of chaos and confusion amongst the tax-payers. Many businesses were shut down, many businesses went into losses, and many could not even understand what GST was all about. Was it because of GST? Was it because of the wrong timing? Was it because of a lack of understanding? Not sure about the reason, but it was one of the main reasons, after Demonetization, for a cash crunch. This might be one of the main reasons which eventually led to the economic slowdown. Having said that, GST is a simple tax system that will help the Government to eliminate problems like tax evasion and double taxation.

IS INCREASING OIL PRICE A THREAT TO THE INDIAN ECONOMIC RECOVERY?

By Nargis Saleem

In the current economic phase, where the growth of the economy has been the slowest over the past six years, there has been adding pressure on the Government due to the high oil prices caused because of the present scenario between the United States and Iran. India, being the world's third-largest importer of oil, is now importing oil at the rate of \$70 per barrel against the last month's price of \$60 per barrel. If this condition persists, the improvement in the Current Account Deficit (CAD) of India will be affected largely.



The CAD is the measurement of value of goods and services imported as against goods and services exported, wherein the value of imports is more than that of exports. It indicates how much the country has to pay to the world in foreign currency. CAD is considered as one of the key indicators of the health of the economy. India's Current Account Deficit has narrowed to 2% of GDP (Gross Domestic Product) in Q1 of FY 2019-2020 from 2.3% of GDP in the same period a year earlier. The CAD is contracting on year on year basis, mainly due to higher invisible receipts at USD 31.9 billion as compared to USD 29.9 billion a year ago.

Although, the experts say that it is too soon to worry about this as long as the oil prices cross \$80 per barrel. This also has an impact on the Indian currency, which is currently at a rate of \$72 per USD. If the oil prices remain at the same level, then the currency tends to depreciate further gradually. Any further rise in oil prices will have its impact on the fiscal deficit of the country which in turn will raise the currency rate, increase the operations cost of airlines, refineries and worsen the GDP of the country which is already being declining.

The current GDP of India is \$2.972 trillion, whereas the target of the 2019 budget was to reach \$5 trillion by the end of the year 2024. In order to achieve this, the country's GDP should be growing at a rate of 10.5% every year to reach the target. However, currently, it is growing at a rate of around 7.3-7.5%. This makes it practically impossible to reach the target at the current trend. Lower GDP growth means a higher inflation rate because most of the industries rely on oil as their raw material.

An increase in the oil prices would lead to an increased cost of production which in turn will eventually lead to fixing the high selling price of the product to the customers which results in inflation. To sum up, "This increasing oil price appears to be adding fuel to the fire."

IS ECONOMIC SLOWDOWN LEADING TO NARROW CORPORATE PYRAMIDS?

By Simrat Kaur

Newspapers nowadays are flooded with news regarding multi-national companies laying off a large chunk of people for cost-cutting. Recently Walmart announced layoffs of more than 100 senior executives including vice presidents across sourcing, agri-business and the fast-moving consumer goods (FMCG). The company has

decided as its losses are increasing from the past three years. Accumulated losses of Walmart India till date are Rs.2181 crore. These losses are because the company is investing lots of resources to drive future growth. "Oyo Hotels and Homes" is also firing an estimated 2,400 employees or 20% of its total workforce in India. The intent is to bring the headcount down by another 20% at least and launch another resizing exercise by the end of March 2020. Many other IT and automobile companies like Infosys, Cognizant, Volkswagen, etc. have layoff people in past years to cut the costs they are incurring.



Why are companies going for lay-offs? It is majorly because demand and consumption are going down. People are demanding less because there is less money supply in the market. Producers will produce less as there is less demand for the product, so companies do not want much of the workforce. When companies adopt such strategies, the management pyramid in the company becomes narrower i.e. workforce in the company will reduce as the company wants to keep only those people who are efficient and effective.

What will happen in the economy if companies will continue with this trend? Will it impact unemployment? Yes, this will increase the unemployment rate in India which will impact the production and purchasing power of people will increase. This will eventually decrease the GDP rate of the country. When layoffs start, they will in general result in a dive in morale both inside the organizations and comprehensively over the economy. As individuals realize that their very own jobs are at risk, spending becomes increasingly slow and escaping recession becomes considerably troublesome.

So, the slowdown in the economy is becoming the reason why the companies are going for lay-offs. The companies want to cut their costs as there is lesser demand in the market. What will they do by producing more, if people are not demanding? What is the need for a larger workforce if companies don't want to produce more? Yes, laying off will impact the economy as this will further lead to recession. Therefore, the recession is the cause and effect both for companies laying off people and corporate pyramid becoming narrower.

MANAGING THE ECONOMIC SLOWDOWN INFLATION, AND THE FISCAL DEFICIT CONUNDRUM

By Ayush Narang



The slowdown in the Indian economy and its rising inflation has raised concerns on whether the economy is heading towards ‘stagflation’ – a stagnant growth with high inflation. This is a particularly difficult situation for the central bank to handle as the basic monetary policy principles suggest increasing the interest rate to arrest inflation. The logic for this approach is that when interest rates increase, the excess money in the economy is sucked out, which will lower the disposable income and hence the demand. However, in India’s case, the economy is already staring at a lower demand. For the last few quarters, RBI has been trying to boost demand and production through lower interest rates. This strategy has not helped in increasing industrial output.

The government intervened in the market by increasing public expenditure, lowering corporate tax rates through its fiscal policy measures. However, this has only broadened the already wide fiscal deficit of the government. Currently, the Indian government has already spent 115% of the target budget expenditure with another quarter remaining to complete the financial year 2019-20. The fiscal deficit for the financial year 2019-20 will easily overrun targeted 3.3% of the GDP, as mentioned in the budget. Economists around the globe are raising serious concerns about the strategy as even after elaborate government spending, the nominal GDP in quarter 3 has increased by just 4.5%, against an expectation of 7.5%.

To close the fiscal deficit, government has resorted to sale of public assets, which has till now yielded about Rs.17,364 crore. It is projected that the strategic sales plan of their stake in Bharat Petroleum Corporation Limited, Air India and other entities by the end of 4th quarter will bring in an additional Rs.70-80K crore. Considering that some of the entities put on sale are infact profit making PSUs, the government has faced immense criticism on this strategy. There has also been a surplus transfer of Rs.58,000 crore by RBI to the government, which has further been pulled into plugging the fiscal deficit.

Due to the short-fall in revenues from taxes, the government has decided to spend only 25% of budget estimates against the budgeted 33% in the last quarter, which will reduce their spending by around Rs.1 lakh crore. The government also reduced the corporate tax to 22% from 30 % in the hope that there will be a rise in investments and will boost the growth of economy. If they continue with this strategy although it will not have much effect in the next fiscal year, but will have a significant impact in the long-run and deficit will come in line be government’s vision fiscal deficit of 3% of GDP.

NBFCs PUT UNDER REGULATORY SCRUTINY TO ENHANCE INVESTOR PROTECTION

By Krishna Priya D V



Non-banking financial companies (NBFC) are facing a major financial crunch for which a short-term recovery is impossible as a significant portion of their investment is tied up in real estate and construction industry. However, NBFCs recovering from the liquidity crisis will face some quality asset pressures, especially in auto-finance and real-estate, with big, higher-rated firms better prepared to meet the challenges.

According to the analysts, companies such as Housing Development Finance Corp Ltd (HDFC), Bajaj Finance and Cholamandalam Finance will continue to take market shares from their smaller counterparts with a better credit profile and access to low-cost funds. India's NBFCs also have over a trillion bond rupees to be refinanced in both the first and second quarters of 2020, the data show, which might hurt the Indian economic growth drastically. Considering the growing role played by the NBFCs in financing the Indian economy, the government is keen to impose regulations to improve investor protection.

Reasons for imposing new rules on NBFCs

IL&FS Financial Services, a group company, defaulted on bank loan payment obligations (including interest), term and short-term deposits, and failed to fulfil the commercial paper redemption obligations due on September 14, 2018. The company also reported that it had issued reports of delays and defaults in servicing some of the inter-corporate deposits. The company which enjoyed AAA ratings across rating agencies witnessed the credit rating of its short-term and long-term loan programs downgraded overnight. The defaults put hundreds of creditors, banks, and IL&FS-related mutual funds in jeopardy. The defaults caused panic among equity investors, even though several non-bank financial firms were faced with chaos in the face of default scare.

The analysts assigned IL&FS' defaulting to its centralized theme of investing solely in construction-based assets. Last decade, IL&FS entered into long-term investments in the construction business to take advantage of its growth to bring in advantage for the company and investors; however, this strategy led to its high debt of Rs.91000 crores. The major reason cited for the company's bankruptcy was its land acquisitions. Cost escalation led to incomplete projects. Further, the company has also invested in some road and power projects which would take time to complete but they had the payback the amount to the investors' right next day.

Considering the self-inflicted crisis of IL&FS which caused panic in the stock market and to its investors, RBI has introduced various rules to ensure more-informed decision making within NBFC to improve investor protection. Some of the rules imposed on NBFCs are:

- Mandatory Investment in government securities and bonds so that it would act as collateral and would help the investors get back some money that they have invested
- Transparent interest rates and uniformity of the interest rates among all the NBFC's
- Financial assets and income from financial assets should be more than 50%
- Cancel of license for NBFC's whose capital base is less than Rs.2 crore

The new rules are expected to bring in much-required discipline in the management of NBFCs.

DECEMBER RETAIL INFLATION BREACHES RBI'S UPPER-END TARGET

By Meera Joshy

Consumer price inflation of December 2019 read 7.35% which was more than the Central Government's notification wherein inflation rate should not be more than 4% for the period from 5 August 2016, to 31 March 2021 with the upper tolerance limit of 6% and the lower tolerance limit of 2%. However, India's retail inflation rose on the back of rising food prices to 7.35%. Core inflation, however, arrived at 3.7%, a slight increase from November 2019. Here the term consumer price index means a comprehensive measure used for calculation of price changes in a basket of goods and services representative of consumption expenditure in an economy.



Is this the highest inflation rate the economy has seen? Well no. The previous high level of retail inflation was seen in July 2014 at 7.39%. For the first time since July 2016, CPI has breached the upper end of the Reserve Bank of India's 2-6% target range. When the central bank kept its key interest rate unchanged after its monetary policy review in December, it cited inflation for its decision as being "much higher than expected." After July 2018 and November 2019, this is the third straight month when the figure for retail inflation surpassed the 4% medium-term target of the Reserve Bank of India (RBI).

The alarming news on retail inflation comes on top of the recent economic growth downward slide. In the first half of this fiscal cycle, the economy grew a modest 4.5%. Recently, the Central Statistics Office pegged the GDP growth estimate for 2019-20 at 5%.

Key highlights from this month's inflation are:

- Food inflation is at 14.12%, with Vegetable inflation at 60.5%.
- Core Inflation came in at 3.7%.
- Household goods and services grew by 1.75% from 2.2 % in November.
- Health inflation grew by 3.8% as against 5.5% in the preceding month.
- Housing inflation stood at 4.3% compared to 4.5% last month.
- Fuel and light inflation stood at 0.7% compared to a contraction of 1.9% last month.

Is this a stagflation? Yes, it can be called stagflation as there is a condition of slow economic growth and relatively high unemployment, accompanied by rising prices. It can also be defined as inflation and declining gross domestic product (GDP).

So, what are the main causes of the retail inflation?

One reason could be the increase in vegetable prices in the last year, almost about 60.5% in the last month, especially the rise in the onion prices which went up to Rs. 100 per kg mark in many cities last month, due to a 26% fall in production and due to unexpected rainfall in most of the onion producing states like Maharashtra, Karnataka and Telangana.

Although core inflation grew slightly to 3.7% in December, the real concern for the RBI and government is the rate of food (vegetable) inflation, which is the main cause behind the sharp increase in inflation in December 2019. The central bank has already expressed its expectations that, in the next six months, food inflation will remain high.

Another reason could be core inflation with rail freight prices and telecom rate increased feeding into this portion in December 2019.

Usually, when there is inflation RBI tries to reduce the repo rate but today, we cannot expect the RBI to cut down the repo rate more as the RBI has already reduced cumulative 135 basis points last year and may quickly be running out of room to ease up even more.

SMALL-CAP COMPANIES MAKING A COMEBACK DUE TO ECONOMIC SLOWDOWN

By G Amrutha

With GDP standing at a 15-year low, there is a threat of economic slowdown to affect the functioning of the economy. The economic slowdown has been construed to have a negative effect on society. However, there is a silver lining wherein the small caps found the opportunity in the constraints of the economic slowdown. It is often assumed that economic slowdown only has repercussions on the functioning of all the businesses but the small caps found their way out to survive in declining economic conditions.



Firstly, what are small caps?

To understand small caps, we have to understand what market capitalization is. Market capitalization refers to the net worth of the company, that is, the value of the company in terms of its capital. In short, market capitalization can be explained as the number of shares multiplied with the share price. Small-cap companies are those companies whose capital value is meagre, that is, it ranges between 300 million to 2 billion. These are the companies that are relatively new in the market. Since they are new to the market, there is a dearth of resources in these companies which in turn makes these companies as risky investments. The most imperative aspect to understand about small cap companies is that they are sensitive to the economic slowdown.

How to attract investors towards small caps?

Intrinsically, investors are risk averted, and they expect the highest returns with the lowest risk, but this is against the fundamental principle of investment, that is, Higher the risk, higher the return. The factor which is taken into consideration to attract the investors to the small caps is long term gains. For example, Facebook! Facebook was a small-cap about a decade ago and today it is the most successful holding company engaged in social media. So investors should invest in small caps with expectations for long term benefits.

Therefore, the economic slowdown causes a fall in GDP, which makes small caps riskier and less favourable for investment and hence the earnings plummet. This is the ideal time for investors to invest in small caps. This will provide sufficient earnings to the small caps in the form of augmented earnings and also a good return on investments to the investors. Hence it is a win-win strategy wherein both the investors and the small caps gain during the economic slowdown, and it acts as a catalyst for the comeback of small caps.