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FINCO₹P

FINNACLE

July 2022

RECENT ECONOMIC EVENTS

- U.S in recession or not?
- Future of Private Equity
- India's expanding trade deficit
- Impact of Traditional Settlement
- Managing Forex Reserves

FOREWORD

Dear readers, it gives me immense pleasure and joy to present to you the July issue of Finnacle – the official finance newsletter of NMIMS Navi Mumbai written by the students of the same. I am extremely grateful to our director - Dr. P. N. Mukherjee and our faculty mentors - Dr. Bharath supra, Dr. Salim Shamsher and CA. (Dr.) Aarti Patki, for their continuous support, which inspired us to make this happen.

This edition of the newsletter focuses on the 'Recent economic events and finance aspects'. Events relevant to the economy can have a major impact on markets and stock prices. This newsletter comprises various events that took place in recent times, along with some insights about private equity, foreign reserves, trade deficit and much more.

At FinCorp, we work hard to impart you our collective knowledge of financial concepts and markets. The articles written have been diligently worked upon by students from all schools of our campus. We hope the Finnacle adds value to your life. Finnacle is published on our official social media channels. However, if you miss an edition, please feel free to write to the team to get a copy of the same.

Do share the newsletter with your friends and colleagues. Wishing you love, warmth, and good health from the whole team of FinCorp. We are open to suggestions and feedback.

Regards,
Sajal Maheshwari
Vice- President, FinCorp MBA 2nd year.

IS THE U.S. IN A RECESSION OR NOT?

Firstly, we would look into what we mean by the term recession. In most macroeconomics' textbooks, recession is defined as two-consecutive quarters of negative growth in the GDP. But according to the National Bureau of Economic Research(NBER), recession is a significant decline in economic activity that is spread across the economy and that lasts for more than a few months.

The committee's view is that, each of the three criteria: depth, diffusion, and duration needs to be met individually to some degree. Extreme conditions revealed by one benchmark may partially offset weaker indications from another.

So currently even after 2 consecutive quarters of negative economic growth, NBER states that "We are not in a recession because the labor market is strong and consumption is strong". If they declare this economic situation as a recession, then it would set people into panic and cause further decline in stock markets.

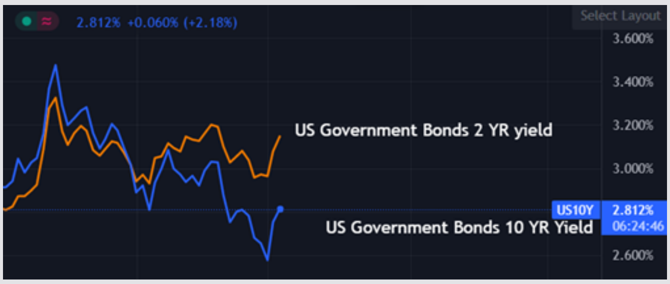
But the unemployment data tells us that there has been no increase in unemployment rates which have remained under 4% in the past 4 months. Also, the demand has been very high because inflation has soared to 9.1%.

Viraj Wani - 2nd Year SBM

Real GDP: Percent change from preceding quarter

Secondly, we would now look into inverted yield curves. Yield-curve inversions are seen by many analysts as a signal that recession lies on the horizon. The 2nd year, which is more sensitive to changes in monetary policy went up after the increase in interest rates by FED. This led to an increase in the gap between 2yr and 10 yr bond yields.

When short-term interest rates exceed long-term rates, market sentiment suggests that the long-term outlook is poor and the yields offered by long-term fixed income will continue to fall.



Thus, looking at all the points currently, we cannot say whether the US economy is in

RECESSION OR NOT?

FUTURE OF PRIVATE EQUITY

What is private equity?

Private equity is a kind of alternative investment that comprises companies that aren't traded publicly. Private equity consists of funds and investors that make direct investments in private enterprises or who take over publicly traded companies, delisting the public equity in the process.

Is private equity headed for a fall?

The future of private equity isn't really promising. Investment returns are declining as the 50-year-old industry ages. The average buyout performance, or the return a buyout firm makes from purchasing, enhancing, and then selling a business, has been declining over the previous three decades. For instance, a research discovered a significant decline of six percentage points between the 10-year annualized return in 1999 and the same return in 2019.

What is wrong with the sector?

Leverage and price arbitrage are two financial strategies that are firstly less effective and difficult to manage than in the past. The gains from the former are substantially eroded by competition as the number of active Private Equity (PE) companies hits historic highs. Second, it has become more difficult to profit from operational instruments like margins and growth.Because of its popularity, the returns on these investments are always lower.

Shubham Shetty - 2nd Year SBM

Do contractionary policies make private equity less desirable as a choice?

The government was forced to restrict the amount of money available in the economy due to growing inflation. Thus, the first half of 2022 will be remembered by investors in the equity and debt markets mostly for generational sell-offs. But funding has continued, sizable transactions are still being completed, and paper returns seem solid, indicating that the upheaval in the public markets has not yet completely permeated private equity. The corporate buy-out is a financial gimmick that is inappropriate for the next time of low growth and high inflation; there has never been a boom-and-bust cycle like it in the 40-year history of private equity. The fact that cheap debt is unlikely to rescue the day is most crucial.

IMPACT OF TRADITIONAL SETTLEMENT IN RUPEES ₹

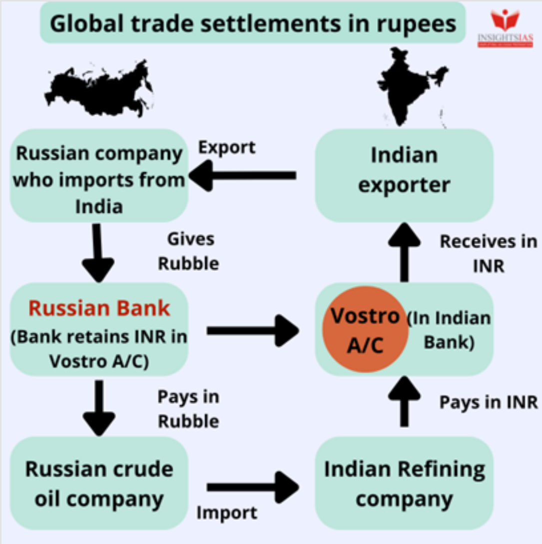
The recent announcement by RBI to allow cross-border trade transactions is a timely move aimed toward internationalization. This was taken with the view to promote global trade & exports from India.

The process will involve setting up of Special Rupee VOSTRO account, with the approval of RBI, by partner countries for the settlement of payments which will help in establishing the role of rupees internationally. This motion comes amid the rupee touching record lows against the dollar.

Using the INR as an invoicing and settlement currency will enable India, the world's sixth-largest economy and a quickly developing favorite for foreign investment, to lower exchange rate risk, which will ultimately lower trade-related costs and boost investment flows.

If internationalization has a positive impact, a rise in the value of one unit of currency would result in a 0.2% increase in the financial market's development. Additionally, this shift would address problems like currency mismatch in financial institutions and nations' inability to borrow money overseas in their own currency.

Sanjana Rane - 1st Year SBM



India has been witnessing a high trade deficit due to an increase in the price of key commodities and this step is estimated to stabilize the rupee in the market.

The mechanism will enable two of our biggest markets- Iran & Russia to avoid sanctions. It will also go a long way in increasing India's trade with South Asian neighbors and help instate India's dominant position in the region.

For the acceptance of INR as a global currency, a transparent & efficient framework for settlement is necessary.

India's new free trade agreement (FTA)- both concluded(UAE & Australia) and upcoming(Canada, European Union & UK) should increase its economic engagement with other FTA partners, of which majority of countries trade in US dollar. This dominance of the dollar in the market is difficult to be challenged at least in the short run.

INDIA'S EXPANDING TRADE DEFICIT

India's merchandise exports rose by 16.8% to $37.9 billion in June 2022, while imports soared by 51.02% to $63.5 billion leading to a trade deficit of $25.63 billion (about ₹2 lakh crore) in June 2022, which is almost three times the figure for the same month last year ($9.61 billion, or ₹76,000 crore), while it stood at $70.25 billion during April 2022.

"Given the global headwinds and dollar strength, coupled with the rising trade deficits, the INR may weaken to 80-81/USD in Q2," according to Aditi Nayar, the chief economist at ICRA. A country's trade deficit is one of the massive components of a country's current account deficit.

A high trade deficit, along with a falling currency, can hurt India's economy as the CAD will widen in the process. A higher CAD puts the rupee under pressure raising the cost of overseas borrowing. The rupee fell to a historic low of 79.14 to a dollar on July 5.

Maitri Maniar - 1st Year SBM

"The value of non-oil, non-gems, and jewelry imports was $36.7 billion (₹2.9 lakh crore) in June 2022, whereas $27.87 billion (₹2.2 lakh crore) in June 2021", said the Ministry of Commerce and Industry. However, the primary reason for the widening of the trade deficit was the higher import value of crude and petroleum products, coal, coke, and electronic goods, among others.

"The conflict between Russia & Ukraine and slow easing of restrictions in China from its zero-covid strategy has strained supply chains, further slowing merchandise trade and increasing logistic costs", says Crisil.

In a research note published by Acuité, they pointed out a few areas of concern which included the geopolitical crisis, that is keeping global commodity prices elevated and dampening world trade volume which leads to robust imports, eventually causing India's trade deficit to leap up.

RBI'S WAY OF MANAGING FOREX RESERVES

Foreign exchange reserves are foreign currency-denominated assets held by the central bank of every country. The majority of foreign exchange reserves are held in US dollars, with China being the largest holder of foreign exchange reserves in the world. These assets serve many purposes, but primarily they are held to ensure that a central government agency has reserve funds, in case their national currency rapidly depreciates or becomes completely insolvent.

India's foreign exchange reserves consist mainly of US dollars in the form of US government bonds and institutional bonds.

FCAs (foreign currency assets) also include investments in US treasuries, bonds of other selected governments, and deposits with foreign central and commercial banks. As of September 2021, India has the fourth largest foreign exchange reserves in the world after Switzerland.

But, India's reserves have fallen by $52 billion since early March, out of which $21 billion of that decline has occurred in the past month. Since much of the reserve is held in dollars and the dollar has gained tremendously, the entire decline is probably due to intervention and the rising dollar may actually be masking the extent of dollars sold.

The country's foreign exchange reserves fell by $7.541 billion to $572.712 billion in the week ended July 15 itself, as the Reserve Bank continued to intervene in the market to curb the fall in the rupee. During this reporting week, the decline in reserves was driven by a decline in foreign currency assets (FCA), a major component of total reserves, as well as gold reserves, the central bank said.

FCAs fell by $6.527 billion to $511.562 billion and Gold reserves fell by $830 million to $38.356 billion in the reporting week. It is said that the central bank was supplying US dollars to the market to ensure sufficient foreign exchange liquidity.

Despite this massive hit, USD/INR is at a record high, and with energy prices on the rise and the Federal Reserve set to raise interest rates much further, the rupee is unlikely to get any relief anytime soon. If reserves continue to decline at their current rate, the $100 billion could only last until the end of this year, when US interest rates are expected to reach a perceived endpoint for the cycle. If they don't, India may have to spend a lot more just to keep the INR at an extremely weak inflation-promoting level.

Paridhi Agarwal & Devu Nair
- 1st Year SBM

IMPACT ON INDIA DUE TO FALL IN GLOBAL EDIBLE OIL PRICES

The edible oil prices have dropped drastically in the global market. According to Solvent Extractors' Association of India's (SEA) Executive Director B.V. Mehta, landed prices of palm oil, which has a share of more than 60% in India's import basket, have declined by USD 300-400 per ton of different edible oils.

Similarly, in just one month, the cost of crude soya bean oil and sunflower oil declined by 24% and 14% respectively. Prices of all major edible oils in India have fallen by ₹15-25 per liter in the past few months.

The cooling of global prices rose sharply when Indonesia the world's biggest exporter of palm oil imposed a ban on shipment. The supply of sunflower oil from Ukraine was disrupted because it conflicted with Russia.

India meets 56% of its annual cooking oil consumption via imports. The imported oils mainly comprise palm (55-60%), soya bean (20-25%), sunflower (15-20%), and others (5-10%).

Maitri Maniar - 1st Year SBM

DECLINE

To curb rising inflation, the government allowed tariff-free imports of crude soya bean and sunflower oils during this financial year and the next. The government also removed a residual 5% agriculture infrastructure development cess on the two crude edible oils.

Leading edible oil manufacturers in the country have agreed to further reduce prices after the central government urged them to cut prices following the softening global rates of edible oil.

Adani Wilmar, India's largest edible oil producer, last month announced a cut of ₹10/liter for soya bean, sunflower, and mustard oils. Also, Mother Dairy, one of the leading milk suppliers in Delhi-NCR, reduced prices of the cooking oils by up to ₹15/liter last month, citing softening rates in global markets.

ADANI GROUP TO ENTER INTO TELECOM SECTOR

On 9th July 2022, Adani Group announced that it had plans to participate in the 5G spectrum auctions, set to roll on 26th July, through its subsidiary Adani Data Networks but emphasized that it has “no plans to enter the consumer mobility space”, dominated by the likes of Jio and Airtel.

The intention of participating is to provide private network solutions along with enhanced cyber security in the airport, port and logistics, power generation, distribution, and manufacturing operations.

Other investments by the Adani group like education, healthcare, and skill development in rural areas are expected to be benefited from this move as they will need ultra-high quality data streaming capabilities through a high frequency and low latency 5G network for their other businesses.

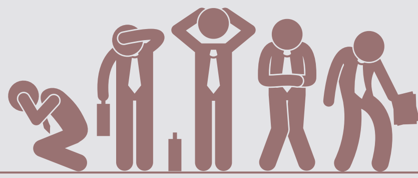
On the next day of this announcement, Bharti Airtel’s shares plunged more than 5%, but on the same day, share price of Reliance Industries which is the parent company of Reliance Jio Infocomm Limited went up by 1.29%. This comes in as a threat to the likes of Jio and Airtel as the industry estimates “Future enterprise business revenues are fixed at almost 40% of overall 5G revenues”.

Vatsal Kapadia- 1st Year SBM

Adani group has the ability to sell enterprise offerings, including private networks as a service, so all these factors will affect the revenue of other companies. The amount of earnest money a corporation must deposit determines how many airwaves it can bid-for in the situation.

Jio puts the highest EMD (Earnest Money Deposit) at ₹14000 cr., followed by Airtel at ₹5500 cr. The loss-making VI also entered this by putting ₹2200 cr. and Adani group as a new entrant put a mere Rs 100 cr.

It would be interesting to watch out for the future of the Indian telecom sector after this move, and if Adani group enters into the consumer mobility space, the consumers would have extra choice and can expect better services from other players as well. Also, if this deal ever happens then Adani could be successful in breaking the monopoly created by Jio and Airtel

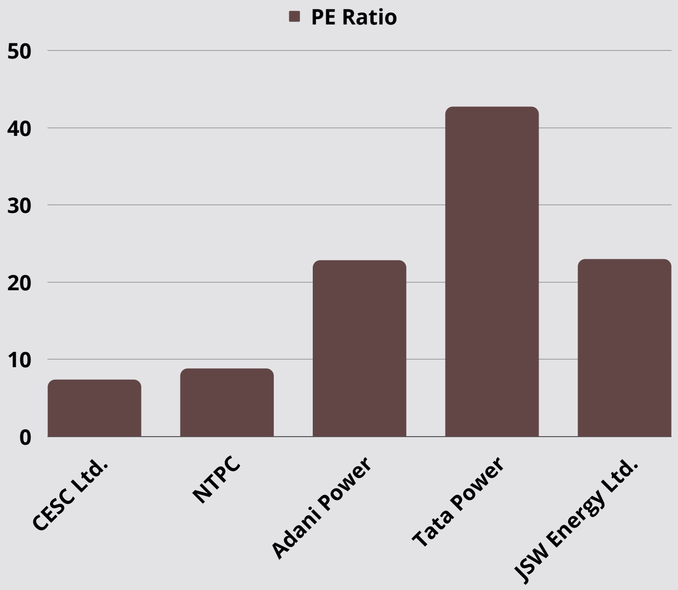


FUNDAMENTAL ANALYSIS: ADANI POWER LTD.

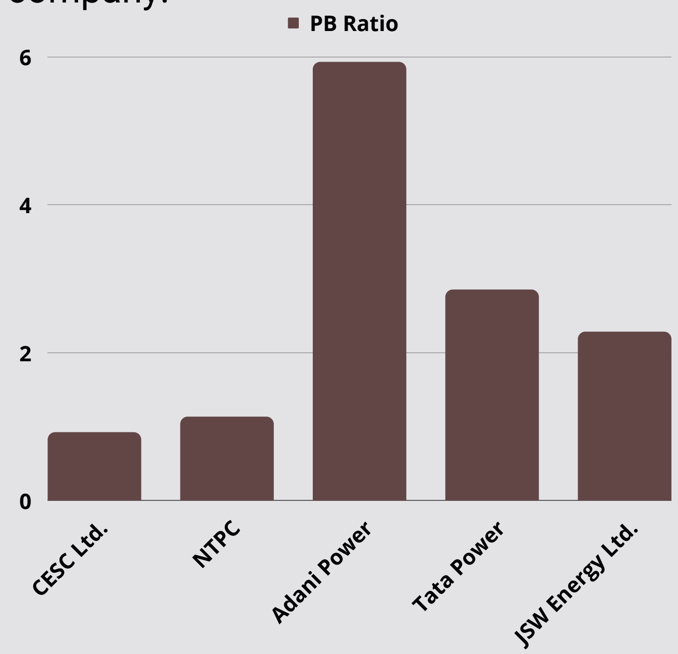
Power is undoubtedly one of India's major requirements for industrial growth. Adequate power is essential to sustainable growth in the Indian economy. The Industry, apart from some major players like Adani Power Ltd, Tata Power, NTPC Ltd, JSW Energy Ltd, and CESC Ltd, is mostly fragmented.

As of FY2020, Adani Power Limited is India's largest private sector thermal electricity producer, with a total generating capacity of 12.4GW, including 40 MW of solar power. The firm, a part of the Adani Group, is involved in energy generation, transmission, and distribution through its thermal power facilities situated throughout India, as well as its solar power facility in Gujarat.

Starting with one of the most important ratios, the PE Ratio, let us take a look at Adani Power’s PE (Price to Equity) Ratio. According to Money Control, the PE ratio of Adani Power is 22.77, but since the PE ratio holds no value in absolute terms, let us compare the PE Ratio of Adani Power with the PE Ratios of its peers.



We can see that the company has a higher PE ratio compared to some of its peers, but the company commands a high market share in the industry, justifying the high PE to an extent. Let us also take a look at the PB (Price to Book) ratio of the company compared to its peers to get a better idea about the company.



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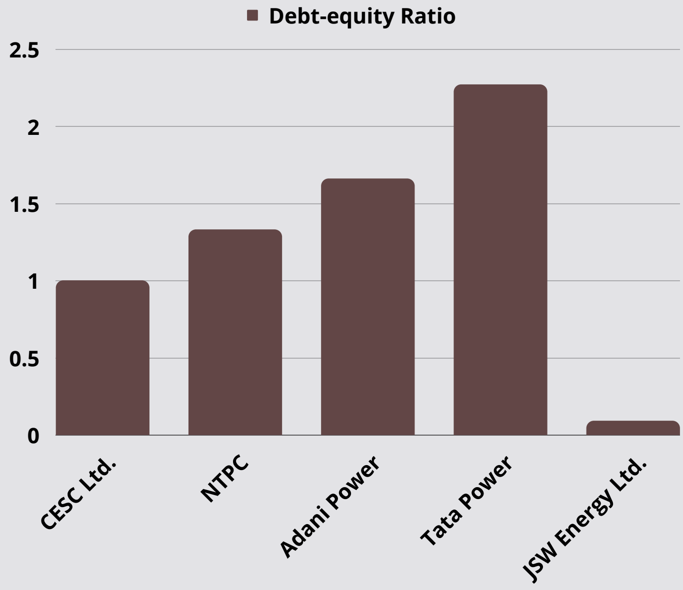
Adani Power has a price-to-book ratio of 5.93, which means that Adani Power trades at 5.93 times the face value of the shares. Compared to the other companies in the same sector, the Price to Book ratio for the company seems to be higher than the average.

The Company also has a high debt-to-equity ratio, which is not specific to only this company, but to The Adani Group in general.



Yet another concerning news for the investors is that the PS(Price-to-Sales) ratio for adani power is increasing y-o-y, currently standing at 2.58.

Going through the annual report of the company, a few points stand out. The consolidated net sales for Adani Power stood at INR10,597.98 crore in March 2022, which is up approximately 66.28% from INR 6373.60 in the Financial year March 2021. Moreover, the quarterly profit at was at rupees 4645.47 crore in March 2022, which is up. About a whopping 35,280.58% from rupees 13.3 crore in March 2021. The year over year net change in Cash Cash was up 180.83% 26.69 billion INR in 2022. The free cash reward also increased to 37.10 billion INR, which is up 173.58% year over year. This is primarily due to a base effect of the year 2021 where the cash flow was in negative, standing at -8.28 billion INR.

The stock holdings of the promoters has no change in the past years. The company has 74.97% holdings and the promoters have pledged 27.37% of their holdings.

Charchit Agarwal
Harshit Mahajan
- 1st Year SOC

TECHNICAL ANALYSIS:
TATA MOTORS LTD.

- After giving out fantastic quarterly results, the company has given a good move.
- The stock has come back again to these levels as it turns out to be a good retest.
- Previous resistance is turning into support. Major support till 460. Buy on every dip till 455.
- Risk reward is more than 3.5 times.
- It's trading entirely above 100 EMA.
- RSI is currently at 60 which is significantly strong.
- The stock also has a good trendline support.
- CNXAUTO (Nifty Auto Index) has also given a breakout.

Viraj Wani & Deepansh Krishna
-2nd Year SBM

INTERVIEW WITH AN

INDUSTRY EXPERT

How did you come to the conclusion that you wanted to work in finance?

From a young age, finance piqued my curiosity. My interest developed ever since I began reading newspapers, especially The Economic Times starting in my 10th grade. Finance excites me. Over time, as I gained knowledge of how well-paying several financial careers are, it motivated me to pursue such careers.

What is the current composition of your assets?

I invested my entire capital or 150% in stock. Therefore, 100% of the funds are mine, and 50% are borrowed. Because of my belief in the stock fundamentals story, practically everything in my portfolio is an equity invest-ment. Additionally, I possess a house that is not a loan, so that is also taken into consideration.

The markets have changed significantly since the pandemic and are still changing. What should be the approach for a retail investor?

For a retail investor, the one thing I would like to stress more than the equities market is to avoid being swept away in the excitement. One should invest holistically with a plan, and be careful not to get carried away when the new Feds are implemented.The best approach, in my opinion, is to invest methodically.

Mr. Bismillah Chowdhary
Senior VP, Edelweiss

What was it like for you to be a part of edelweiss? Do you want to discuss some of your experiences?

This was my first job. One benefit of joining in 2006 was that it was always encouraged to get involved in practically everything. From institutional stocks to asset management to alternative financing and insurance. Only a small number of companies would provide an employee with that much flexibility. Usually, you start with something, stay there, retire from there, or move into a comparable position. Edelweiss at least allowed me to try new things. Over the past 16 years, they have trusted me with their skill set and allowed me to handle various asset classes and enterprises. That, I believe, is the pinnacle for me.

Is there anything you wish you had known when you were our age that you might impart to other prospective finance students?

My sole piece of advice is this. Be ambitious in life. You have no justification for lowering your standard. Just shoot for the stars and the fences.

For any suggestions or feedback, write a mail to us at:
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