KAUTILYA

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NEWS

DOMESTIC NEWS

Indian Railways freight loading in July surpasses last year's level: After a revival in construction, agriculture and power sector, Indian railways freight loading's level has increased as compared to the previous year. Some of the major reasons for increased level are improved infrastructure, doubling of freight train speed and decreased logistic cost. Further, the ministry of railway is aiming to increase the freight loading by 50% by making some changes in operations such as reducing turnaround time for wagons

(Source: The Economic Times)

Tata Steel to commission first scrap-based plant in Haryana's Rohtak soon: TATA steel has commenced the trial of the first raw material consignment of ferrous scrap in its steel recycling plant in Rohtak. The project contains processing equipment such as Shredder, Baler and Material Handler etc. The scrape will be gathered from different segments such as Construction & Demolition scrap. This project will fulfil the goal of sustainable steel production as there will be lower carbon emissions as well as lower resource and energy consumption.

(Source: The Economic Times)

Bank of Baroda Raises Rs981 crore through bonds: On 24th July, the bank has raised Rs. 981 crore by issuing additional tier-1 bonds under Basel-III norms. Around 18 allottees were issued the bonds, which carried a coupon rate of 8.50% on a private placement basis. These were perpetual bonds carrying no maturity and are often treated as equity and not debt. This was done to comply with Basel-III capital regulations in order to improve and strengthen their capital planning processes.

(Source: Moneycontrol)

Government to ease borrowing cap in relief for discoms: The Union power ministry is planning to request the cabinet to consider raising the borrowing limit of debt burdened state electricity distribution companies (discoms), in order for them to qualify for the Rs 1.25 trillion reform-linked package. Central government had announced liquidity injection into discoms as a part fo the stimulus package to revive India's virus hit economy.

(Source: LiveMint)

INTERNATIONAL NEWS

Swiss lift maker 'Schindler' to cut 2000 jobs as coronavirus paralyzes projects: Swiss elevator and escalator maker 'Schindler' along with the US-based Otis worldwide and Finnish rival Kone expected a 4-6% drop in its net profit. Revenue of Schindler dropped from 8.7 to 4.96 billion francs as its orders fell 12.1% to 5.4billion francs due to brakes in projects due to COVID-19 pandemic resulting in 2000 job cuts. Schindler has thought of trimming over 66,000 employees which will eventually increase its restructuring cost up to 130 million.

(Source: The Economic Times)

Intel Corp.'s stunning failure heralds the end of an era for United States chip sector: Intel and other US companies are considered to be dominating the semiconductor industry. But like other US companies have sold or shut its domestic plants and outsourced it to Asia last year, Intel is planning to do the same arguing that it will improve its operations and will manufacture better products. It resulted in a decline in its share prices by 16% as many of the analysts believe that it is a potentially dangerous mistake as Intel's main source of competitive advantage for 50years is in danger.

(Source: The Economic Times)

Emirates offers pilots, cabin crew 4 months' unpaid leave to tide over COVID-19 pandemic: Due to the Covid-19 pandemic many countries have restricted flights impacting the aviation industry. Emirates has planned to restrict its schedule from 157 destinations to 62 destinations. Due to which it planned to offer 4 months' unpaid leave from August to November to its pilots and cabin crew members and will be offering the accommodation and medical cost of up to 150000 euros and quarantine cost up to 100 per day for 14days.

(Source – CNBC)

Saudi Arabia is mulling asset sales and income tax to survive a double whammy: Saudi Arabia is taking all the necessary steps in bolstering the finance of the country after the drop in oil prices. According to the IMF report, its economy is expected to shrink by 6.8%. The government has already taken necessary steps like tripling value-added tax, increasing import fees, and cancelling some benefits of government workers. The government is now planning to raise 50million riyals by privatizing state assets into education, healthcare and water sectors ruling out income tax from it.

(Source: The Economic Times)

" Beware of little expenses. A small leak will sink a great ship."

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LIBOR PHASE OUT

The London Interbank Offer Rate (LIBOR) is uncertain since the Financial Conduct Authority announced in 2017 that it would support the banks only till 2021. LIBOR is always leveraged as representative rates rather than normal rates means that it is based on expected rate but not on actual rate or funding cost.

Across the globe, every group is focused on the efforts to choose risk-free rates same as there in the financial service industry.

In this environment which is highly uncertain, every financial institution must focus on the products, infrastructure and customers rather than focusing on LIBOR.

The regulatory confirmed that they need new market rates which is based on the transactional data with robust trading volumes rather than LIBOR used rates as the rates were manipulated and were exposed in the market. They will support LIBOR till 2021 because the debts of the clients will be matured by the end of 2021 and also that the market has begun to float the rates on the pricing of US dollar-based debt of SOFR.

There are around 28 members in the US ARRC (Alternative Reference Rates Committee) and each member is affected by the LIBOR.

A new benchmark must be identified so that they can change the transition. SOFR (Secured Overnight Financing Rate) will have its own terms like the forward-looking term, rate compounded in advance, compounded in arrears and simple daily SOFR in arrears.

The method of the new benchmark is different as it involves new calculation and different time horizons. The process of this transition may take time but it will sort it out soon and proved to be the best.

Chetna Jhuria

EY WIRECARD SCANDAL

The controversy revolves around a missing $2 billion from Wirecard, which was around one-fourth of the total revenue the organisation earned between 2016 and 2019. This money was supposed to be credited in the banks of the Philippines. However, a legal investigation found that there was no such money in the company’s name.

Wirecard was engaged in an unconventional measure wherein it utilized third-party partners to process the payments in nations where it wasn't licensed.

The income from those organizations was deposited in trust accounts from where it was supposed to be paid directly to the company. Wirecard clarified that the cash was saved that way for risk management, saying it could be spared to give refunds or chargebacks if necessary.

Furthermore, Ernest & Young (EY) neglected to demand information for quite a long time from a Singapore bank of around 1 billion euros ($1.12 billion) that Wirecard claimed to have put away in Singapore, which could have indicated more clearly, Wirecard’s mismanagement of funds.

Earlier this year, EY refused to approve Wirecard’s 2019 accounts due to the discrepancies and false statements around the missing money.

EY has been examining for Wirecard since 2008 when it was employed to direct an exceptional review over claims that there were lacks in the organization's budget reports and afterwards, EY proceeded the organization's regular audits from 2009 forward.

Despite signing off Wirecard’s accounts for more than a decade, the international scandal questions the accounting practices and performance of EY with respect to being one of the Big Four.

Muskan Kedia

WHY EVERYONE WANTS TO INVEST IN JIO PLATFORMS

Reliance Jio has been one of the most ambitious projects of Reliance Industries’ Chairman Mr. Mukesh Ambani. While Jio has acquired the telecom market in India, its parent company, Jio Platforms has been working behind the scenes to offer all types of digital services across India.

Though over the years Reliance Jio has continuously been in the news, it was Jio Platforms that created a buzz in the market recently when it was announced that technology giant Facebook has made an investment of $5.7 billion for a 9.99% stake in Jio Platforms.

All in all, in over a month Jio Platforms has managed to get investments for $10.5 billion in exchange for a 17% stake in the company which includes investments from global Private Equity firms including Silver Lake, Vista equity, General Atlantic, KKR, etc. This has raised the valuation of Jio Platforms to $66 billion.

This high interest of global companies to invest in Jio Platforms can be attributed to multiple factors.

Firstly, Jio Platforms has been positioning itself as a technology giant offering diversified digital services and not just as a telecom operator.

Secondly, Jio Platforms ticks a number of boxes such as proven execution, a nearly debt-free capital structure and being on the right side of regulation.

Thirdly, the new normal of social distancing has increased the usage of technology and digital solutions, which is attracting investors towards technology companies.

RIL Chairman Mr. Mukesh Ambani plans to roll out an IPO for Jio Platforms soon. With all this, Jio Platforms' dream of becoming debt-free by March 2021 has been accomplished 8 months prior to the set deadline.

Simran Sanan

IMPACT OF BAN ON CHINESE APPS IN INDIA

With continuous clash with China in Galwan, India had implemented a series of policy initiatives to hurt Chinese economic interest and restrain its influence in the Country.

On 29th June 2020, the Indian Government banned 59 Chinese apps such as TikTok, ShareIt, UC Browser, Cam Scanner, Wechat, etc by quoting data security and safeguarding National Sovereignty under section 69A of the Information Technology (IT) Act.

The ban on Chinese apps has led to a sudden increase in downloads of domestic start-ups' apps such as Chingari, a substitute of TikTok.

Hence, the users of banned apps found it easier to shift to substitutes. But, some apps such as Camscanner may be difficult to shift as the pdf earlier created through it cannot be transferred to another app such as Abode scan unless downloaded or re-uploaded individually.

But, India has made Zoho Doc Scanner which offers the user the option to import all files of any pdf format.

The Department for Promotion of Industry and Internal Trade (DPIIT) has informed Trade Associations to prepare a list of Chinese products so that they can be substituted with domestic products.

Also, it has made it mandatory for E-Commerce companies such as Flipkart, Myntra and Snapdeal to display the country origin on new products listed by sellers.

Indian Consumers also showed disinterest in apps such as Paytm, Ola, Zomato, etc by uninstalling them.

This is because these companies have significant funding from Chinese companies such as Alibaba Group and Ctrip, even though they are established by Indian Entrepreneurs.

This move can be harmful in terms of employment and investment in India.

Hundreds have been unemployed due to the ban imposed on this app and it will affect the commercial real estate as many of these companies have hundreds of square meters of offices in various Indian metropolitan cities

China can suspect India's actions as it violates the rules of the World Trade Organization (WTO), and can file a formal complaint.

Shruti Sonawane

DOES INDIA NEED A NEW BAD BANK?

The pandemic has made everyone worried about the enormous amount of defaulters that will emerge after the moratorium will end.

Already the Indian banking system has one of the worst Gross NPA (GNPA) ratio among large economies at 8.8% in March 2020 and as per RBI, it is expected to reach a staggering 12.5% by March 2021.

This has led everyone to ask a question to themselves, is India in a need to have a bad bank to load of these NPAs to it? It is a bank set up to buy the bad loans & other illiquid holdings of other financial institutions.

The bad bank will purchase the holdings of the entity holding significant nonperforming assets at market price. By transferring those assets to the bad bank, the original institution may clear its balance sheet, although it will still be forced to take write-downs.

As of now in India, there's no bad bank set up rather it has private Asset Reconstruction Companies (ARC) which have been buying NPAs from banks and turning them around.

However, the business model hasn't yielded the desired results. There are around 29 ARCs in India.

There is an added urgency now because the government has put on hold, new references to the National Company Law Tribunal (NCLT) under the Insolvency & Bankruptcy Code (IBC) for one year in light of COVID-19 pandemic.

There has been a question, whether the bad bank should be private or public, but better management would be when all the major banks have a stake in the bad bank, which will help increase the profits on this NPA.

This is because most of the bad loans are either inherently viable projects, given a haircut to reduce bloated project costs, like the recent liquidity crunch in the real estate sector.

If only were these assets sold to a bad bank, recoveries can be easily made on these projects and these can be turned around with efficient management and flow of funds to a profitable business amidst a crashing economy.

Also, it'll allow the banks to be free to lend and not worry about the existing NPAs and help growth to pick up. Banks are already burdened with bad loans running at Rs 13-14 lakh crores post COVID-19, banks will not lend unless they can park their bad loans with someone without being accused of selling the assets off too cheap.

A bad bank collectively owned by the banks in proportion to their bad loans would blunt the criticism. It must be given a chance.

Milind Sharma

GOLD MONETIZATION SCHEME (GMS)

GMS i.e. Gold Monetization Scheme or the Revamped Gold Depository Scheme (R-GDS) introduced by RBI in 2015, replaced the Gold Depository Scheme, 1999.

India is the biggest consumer of Gold in the world, only after China. India has about 24,000 tonnes of idle gold hence the government introduced this scheme to put this metal into productive use instead of keeping it idle in lockers.

Secondly, India imports 800-900 tonnes of gold which widens the Current Account Deficit (CAD). Putting the metal into the consumption cycle will help to reduce the reliance on import of gold.

Any Indian resident (Individuals, HUFs, Proprietorship & Partnership firms, Trusts including Mutual Funds/ ETFs registered under SEBI (Mutual Fund) Regulations, Companies, NGOs, Central Government, State Government or any other entity owned by Government) can go to any bank considered eligible by the RBI for the R-GDS and deposit minimum 30 grams of gold. This gold has to be in the form of bars, coins, jewellery excluding stones and metals.

Interest rates range from 0.5% or 0.6% for short term (1-3 years), to 2.5% for long term (12-15 years). This scheme's short term tenure does not pay interest in the form of money. It pays back interest in the form of gold. So, if the interest is 1% p.a., you get 1 gram on 100 grams.

However, the medium and long-term government deposit schemes calculate the interest in the form of rupees with reference to the value of gold at the time of deposit. These interests are tax-free capital gain.

You do not get your jewellery back in the same form as you put them in, because the banks convert the gold you deposit into bullion or coins and either send it to Metals and Minerals Trading Corporation of India for minting Indian Gold Coins or sell it to jewellers or other banks.

Over 330 Collection and Purity Testing Centres have been approved across the country to evaluate and verify the purity of the gold being deposited.

Gold depository receipt is a physical certificate issued to the trustee, which represents the owner's interest and right to receive gold bullion deposited into the allocated account.

Nishi Sanghvi

GLOSSARY

ARC (Asset Reconstruction Companies): It is a specialized financial institution which purchases the NPAs from banks and financial institutions to help them cleaning up their balance sheets.

Riyals: It is the standard unit of money used in Saudi Arabia and Qatar.1 Saudi Riyal equals to 19.92 Indian Rupee.

Haircut: It refers to a reduction in the value of an asset and it also reflects the lender's perception of the risk of fall in the value of assets.

SOFR: The Secured Overnight Financing Rate is a prominent interest rate that banks use to price U.S. dollar-denominated derivatives and loans which might replace the LIBOR.

Francs: It is the basic monetary unit of Switzerland, Liechtenstein and most of Francophone Africa.1 Swiss Franc equals to around 81 INR.

Riddhi Rajput

QUIZ

1. ________ is world's largest consumer of gold. (China)
2. Intel is one of the dominant leaders in ______ industry. (Semiconductor)
3. Facebook has made an investment of ______ in Jio platforms. ($5.7 billion)
4. _______ has replaced the Gold Depository Scheme, 1999. (Gold Monetization Scheme, 2015)
5. How many Chinese apps have been banned by the Indian Government? (59)

Riddhi Rajput

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