

NEWS

DOMESTIC NEWS

Parliament passes bill providing relief to taxpayers on compliance front amid COVID-19: The Taxation and Other Laws (Relaxation and Amendment of Certain Provisions) Bill, 2020, has made few changes in Direct and Indirect tax laws, was returned in Rajya Sabha due to several oppositions by parties. The reliefs in the bill include to extend deadlines of filing returns and linking PAN card and Aadhaar card. It also provides tax benefits on donations to PM Cares Fund set up in March in the wake of the pandemic.

(Source: The Economic Times)

Promoting India as a manufacturing hub says Harsh Shringla: Harsh Shringla said that there is continuous promotion of "Aatmanirbhar Bharat" by the Government to make India as an alternative manufacturing hub and an innovation destination. Due to Globalization, the Country's economy and price of goods has a global value in the international market. As India is an emerging market which also has a free, open and peaceful engagement in the Indo-Pacific region as per International rules and regulation.

(Source: The Economic Times)

Government has to step up spending before it's too late, says HUL Chairman Sanjiv Mehta: HUL Chairman Sanjiv Mehta said, that India should be assertive in spending otherwise interest rates can be slashed, leading to urban distress in the wake of the pandemic. Also, extend loan moratorium for MSME sector and revive distressed sectors such as real estate, hospitality, etc. can move to the right direction. RBI should reduce the interest rate to boost growth as a top priority over inflation in the current situation. He also said that even though Rs 20 lakh crores stimuli introduce in the pandemic was

not adequate to revive the economy with 1.3 billion people.

(Source: The Economic Times)

Dwindling footfalls in malls lead to the closure of gaming centre operator 'Smaaah': After a few months of lockdown, there is dwindling footfalls in malls which lead to close down of Games and Entertainment centre operator called Smaash. Shripal Marakhia, the founder of Smaash, apologised their employees. Despite of efforts taken by them, failed to save the company from the premature death due to distress of pandemic. Also, there was no support from investors resulted in Capital infusion which led to falling down of Company.

(Source: The Economic Times)

INTERNATIONAL NEWS

Google to enforce Play store tax on the 3% of apps not paying: Google sought to rebut criticism that it selectively enforces its 30% mobile app store tax, demanding that over 3% apps selling digital items without complying follow the rules within a year. The change follows lawsuits by "Fortnite" video game maker Epic Games last month accusing Google and Apple Inc of anticompetitive conduct. Apps sold on the tech leaders' stores are required to use their payment systems so they can collect a portion of sales, which developers describe as a tax. The companies are defending the allegations.

(Source: Economic Times)

Uber wins back the license to operate in London: The ride-hailing giant on 27th September won an appeal to operate in London after a judge ruled stating Uber is a fit and proper firm even amidst the safety concerns. Uber which had 3.5 million customers and 45,000 drivers in London Transport for London's (TfL) refusal last year to renew its operating licence around the issue of unauthorized drivers. Even though it was permitted to

continue to operate during the appeal process.

(Source: Economic Times)

US restricts technology sales to Chinese semiconductor giant SMIC: Washington has ordered US companies to seek permission before selling their technologies to Chinese semiconductor giant SMIC, its latest salvo in the battle for technological dominance over Beijing. US computer chip companies have been told by the department of commerce that they must obtain a license before exporting certain technology to China's largest manufacturer of semiconductors. The new rules stated that SMIC or its subsidiaries risk being used for Chinese military activities.

(Source: Economic Times)

IMF says global economic outlook better than June prediction: The global economic outlook is less bleak than in June as stated by IMF's spokesperson. This signals that the organization's forecast will be raised when it will be released next month. The recent incoming data suggest that the outlook may be somewhat less dire than at the time of the World Economic Outlook update on June 24 with parts of the global economy beginning to turn the corner. the outlook remains very challenging," with emerging markets other than China facing a "precarious" situation due to the coronavirus.

(Source: Economic Times)

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WHY GOVERNMENT IS DELAYING AIR INDIA'S DISINVESTMENT?

The Modi government has been keen on divesting the government stake in a lot of PSUs including the national carrier Air India. When disinvestment in Air India was first proposed in 2018, the government was looking to divest 76% of its stake and wanted the buyer to absorb the whole debt of Air India. Due to such restrictive conditions, nobody came forward for bidding and the government's plan failed.

The disinvestment process was again initiated in January 2020 with the government now ready to sell 100% of its stake in Air India along with 100% stake of Air India Express and 50% stake of AIATSL, the subsidiaries of Air India. The government had also transferred ₹29,464 crores out of ₹58,255 crores outstanding debt at 31st March 2019 from Air India to a government-owned SPV, AIAHL so that the buyer will have to absorb the only half debt.

Since then, the deadline for placing bids has been extended 4 times with the most recent extension given on 25th August for further 2 months. The COVID-19 pandemic has had a huge impact on the aviation sector, and the government is considering to further sweeten the deal to woo buyers. Air India has incurred a net loss of about ₹2,570 crores in the first quarter of 2020 as compared to a net loss of ₹785 crores in the first quarter of 2019.

Now the government is considering 4 options. First, there will be no change in the debt level and only time to submit bids will be extended. Second, no debt level will be specified and bidders can give quotes based on enterprise value instead of entity value. Third, the government continues to run Air India for further 2-3 years i.e. delay privatization. Fourth, close down Air India. The final decision is yet to be taken by the government.

Simran Sanan

IMPACT OF BANKING REGULATION (AMENDMENT) BILL, 2020

Rajya Sabha passed Banking Regulation Amendment Bill, 2020 to bring the cooperatives banks under the management of the Reserve Bank of India. In the wake of the deteriorating state of cooperative banks in the nation, the central government altered the Banking Regulation Act, 1949.

As per the key changes brought in through the 2020 Bill, provisions pertaining to banking organizations will also be applicable to cooperative banks. This guarantees that cooperative banks are similarly liable to better administration and sound banking regulations through the Reserve Bank of India (RBI).

With the amendments, RBI will have the option to attempt a scheme of reconstruction or amalgamation of a bank without setting it under moratorium.

It will assist the central bank to build up a plan to ensure the interest of the general public, banking framework, account holders of the bank and banking company's appropriate administration, without disturbing any banking functionalities.

The corrections likewise permit cooperative banks to fund-raise by means of public issues and private placements of equity or preference shares as well as unsecured debentures, with the central's bank's nod.

However, the amendments will not:

1. Influence the current powers of the state registrars of co-operative societies under state laws.
2. Apply to Primary Agricultural Credit Societies (PACS) or co-operative societies whose primary object and head business is long-term finance for agricultural development, and which don't utilize the words "bank", "banker" or "banking".

Why this was necessary?

This was felt essential in the wake of the recent Punjab and Maharashtra Cooperative (PMC) Bank crisis. Cooperative banks have 8.6 lakh account holders, with an absolute deposit of about ₹5 lakh crores representing a large part of the entire banking system. Also, in the past five fiscal years, it was witnessed that urban cooperative banks revealed almost 1,000 instances of frauds worth more than ₹220 crores.

Muskan Kedia

REASONS BEHIND THE OVERSUBSCRIPTION OF HAPPIEST MIND'S IPO

Happiest Minds Technology recently had an oversubscription towards its IPO. Let's understand the reasons behind the same. The promoter, executive chairman and director of the company is Mr Ashok Soota who was also the founding chairman and managing director of MindTree which is also an IT company.

During the IPO of Mindtree, it had also got oversubscribed by 103 times. Happiest Mind had already got oversubscribed since day one of the IPO.

Happiest Minds has its presence in India, USA, UK, Canada and also in the Middle East. The three major business segments of Happiest Minds are Digital Business Service (DBS), Product Engineering Service (PES) and Infrastructure and Management Security Service (IMSS). Happiest Minds has its 96.9% of its revenue from Digital

Business Service (DBS) which includes services like Cloud Services, SaaS, Security solutions, AI and IoT services.

Out of the total clients of Happiest Minds USA contributes 77.3%, India contributes 10.9% and the UK contributes 9.8% but the interesting fact is that these clients are serviced by onsite employees which constitute of only 4.7% whereas offshore and domestic employees constitute 95.3% that is they have cheaper labour and this is leading to cost-saving.

The Legacy services are growing at the rate of 2.35% whereas the Digital services are expected to grow at the CAGR of 20.19% every year therefore positive sign for the company. From a financial information point of view, the total assets worth ₹3869.9 million on 31st March 2018 increased to ₹5081.5 million on 30th March 2020 which is a growth of 31.30%.

Even Revenue has continuously increased from ₹4891.2 million on 31st March 2018 to ₹7142.3 million on 31st March 2020 growth of 46.02%. The Profit After Tax which was a loss in March 2018 i.e. ₹224.7 million, the profit of ₹142.1 million in March 2019 and ₹717.1 million in March 2020, therefore, has grown 4 times from March 2019 to March 2020.

Let's compare Happiest Minds to its highest peers i.e. TCS. The revenue growth of TCS is 7% but for Happiest Mind it is 19%. For Profit After Tax (PAT), TCS is growing at only 3% but Happiest Minds is growing at 40.5%.

From a Valuation point of view using P/E Multiple at lower price band i.e. ₹165 the P/E is 23.43 and at higher band i.e. ₹166 it is 23.57 while the Industry P/E is 26.9 therefore even at the lower or a higher price band, the issue price is cheaper than its industry issue price.

Falguni Chhajjer

DID ORACLE GET ITS HAND ON TIKTOK?

Oracle Corporation is an American based multinational company which deals with cloud computing. It is the 2nd largest company in market revenue. Microsoft was the front runner to partner with TikTok, but Oracle grabbed the deal with TikTok by kicking out Microsoft.

Microsoft wanted to take full control of TikTok which doesn't fit with Beijing. Oracle is planning to take a 12.5% stake in the new Tik Tok global. TikTok global will seek U.S. IPO.

Bytedance Ltd is the parent company of TikTok based in China. Existing investor of Bytedance Ltd can participate in the pre-IPO round.

The benefit to Oracle from the deal

Oracle deals with cloud computing but lagged behind Amazon Inc, Alphabet Inc. and Microsoft. Oracle by acting as a trusted technology provider of TikTok will get the benefit to house entity's data in its U.S servers which will help in its cloud computing business.

Oracle will also deal with TikTok's source code and algorithms.

The benefit to TikTok from the deal

TikTok has around 100 million American users, but it was facing the threat of ban from America for security reasons. Oracle as a secure cloud Tech provider ensures that data is safe and allows TikTok to stay in the U.S.

TikTok was able to persuade the U.S. government that TikTok global would be controlled by American investors because it counts the majority stakes of existing shareholders in TikTok's Chinese parent, individuals acquainted with the matter said. Though Bytedance can retain an 80% stake within the new company, because of existing U.S. investors hold a 40% stake in ByteDance, the mathematics works bent on 53% possession by U.S. investor.

Niyanta Khare

HOW SEBI'S NEW NAV FRAMEWORK WILL BRING UNIFORMITY?

The mutual fund's houses need to allocate units on the realisation of funds without considering the ticket size. It might impact Systemic Investments Plans and cheque based transactions. It won't affect the customers who are using an online medium for the transaction.

The recent NAV for allocation of the mutual fund is based on the investment amount. The investment below Rs. 2 lakh is allotted on the basis of the time of receipt of the application within the cut-off time. The SEBI is doing all the transactions regardless of any specification of the amount. The closing NAV of the day is applicable to the funds which are available for the utilisation, irrespective of size and time of the receipt of the application.

Cut-off timings which were applicable even after the COVID-19 lockdown is the same. The co-founder said that there will be majorly two big impacts on the areas from the new framework. First one will be on the SIP which is less than Rs 2 lakh and they will be allotted on the day or within the two days of the SIP dates. The second impact will be on the cheque based transactions in which the assets management companies will be allocated units only if the cheques are given on the cut-off timings. The units will be allocated only after the cheques are cleared. The delay in the availability of the fund will impact the NAV assignment of the investments.

The new rule will help the AMCs to reduce the impact of the cost of providing NAVs on the same day and it will

also impact the returns delivered. SEBI has made it mandatory for the fund house to use an automated order management system and scheme-wise order placement.

Chetna Jhuria

FINANCIAL PRODUCT OF THE MONTH

COLLATERALIZED DEBT OBLIGATIONS (CDO)

We've all heard about CDO. But what is it exactly? CDOs got popular during the 2008 sub-prime crisis. It is basically a pool of securities bundled together and sold like shares.

Let's say a person needs a home loan or a car loan and he goes to the bank for asking for a loan. The bank might get 'n' number of customers asking for such loans, securitized by either collateral or a mortgage, which they can sell in case of default.

The bank transfers all of these loans to a special purpose entity (SPE). The SPE is basically a pool of all these securities. The shares of this special purpose entity are then sold to interested investors. This SPE gives the investors a higher rate of return as compared to the bank returns and lends to the borrowers a rate lower than that of the bank.

But how does this differ from a Mortgage-Backed Security (MBS), where similar asset-backed securities' shares are offered, with a pool of securities being the underlying asset? In a CDO, there are 3 types of securities based on the risk-appetite and the yield. This means that CDOs can give different investors, different levels of risk and returns with the same underlying assets.

The three types of securities are called CDO tranches. Different tranches have different ratings, based on how risky they are. The first tranche is 'Senior' offering lowest return out of the three tranches, but assured returns, with low risk. Senior tranche is the safest.

The second tranche is the 'Mezzanine' offering a yield higher than the 'Senior' tranche, but being riskier as well.

The third tranche is 'Equity', giving the highest return. This is because, in case of default, Senior tranche gets paid first, then Mezzanine and whatever is left is paid to the Equity tranche, which means Equity tranche has the high risk involved.

So basically, CDOs, or collateralized debt obligations, are financial tools used by investment banks to repackage individual loans into a product sold to investors on the secondary market.

They are called collateralized because the promised repayments of the loans are the collateral that gives the CDOs their value.

Nishi Sanghvi

GLOSSARY

NAV: The performance of a particular scheme of a mutual fund is denoted by Net Asset Value (NAV). In simple words, NAV is the market value of the securities held by the scheme.

Cut off timing: The cut-off time is the time at which a bank stops crediting same-day deposits. Deposits after the cut-off time are credited the next banking day.

Moratorium: A moratorium period is a time during the loan term when the borrower is not required to make any repayment. It is a waiting period before which repayment by way of EMIs begins.

Private placement: A private placement is a sale of stock shares or bonds to pre-selected investors and institutions and it's an alternative to an initial public offering (IPO).

Disinvestment: Disinvestment means sale or liquidation of assets by the government, usually Central and state public sector enterprises, projects, or other fixed assets.

Riddhi Rajput

QUIZ

1. Banking Regulation Amendment Bill,2020 brings the _____ under the management of the Reserve Bank of India. (Cooperatives banks)
2. The subsidiaries of Air India are ____ and _____ (Air India Express, AIATSL)
3. The promoter, executive chairman and director of Happiest Minds is _____ (Mr Ashok Soota).
4. _____ is the parent company of TikTok based in China. (Bytedance Ltd)
5. SEBI's new NAV framework won't affect the customers who are using an _____ medium. (online)

Riddhi Rajput

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