THE SVIMSIAN NEWSLETTER

ISSUE MAY JUNE JULY 2022
VOLUME II ISSUE 5

Why Pakistanis have been told to drink less tea amid economic crisis

- Rushikesh Gunjal - PGDM
1st year, II semester.

I appeal to the nation to reduce tea intake by one or two cups daily because we borrow money for tea import as well," Federal Minister for Planning and Development, Ahsan Iqbal, said on Tuesday. What does Pakistan's economic crisis have to do with tea?

Iqbal also suggested that traders close their tea stalls earlier to save electricity.

For months now, Pakistan has been dealing with a worsening economic crisis, which has led to a sharp increase in the cost of food, gas and oil. The country's foreign currency reserves have been dwindling, leaving the country in dire need of funds.

Presently, funds held by the central bank have dropped to about $10 billion in May from $16.3 billion at the end of February, Reuters reported. The country is said to have just enough funds to cover about two months of imports.

The economic crisis was at the centre of a political showdown between Prime Minister Shehbaz Sharif and his predecessor Imran Khan last month, which ultimately ended with Khan's ouster in a no-confidence vote. The Sharif government has been saddled with the unenviable task of combating rising inflation and bringing the economy back on track.

What does the economic crisis have to do with tea?

"The tea we import is imported by taking a loan," Iqbal said during a press conference this week, adding that businesses should also try to save electricity.

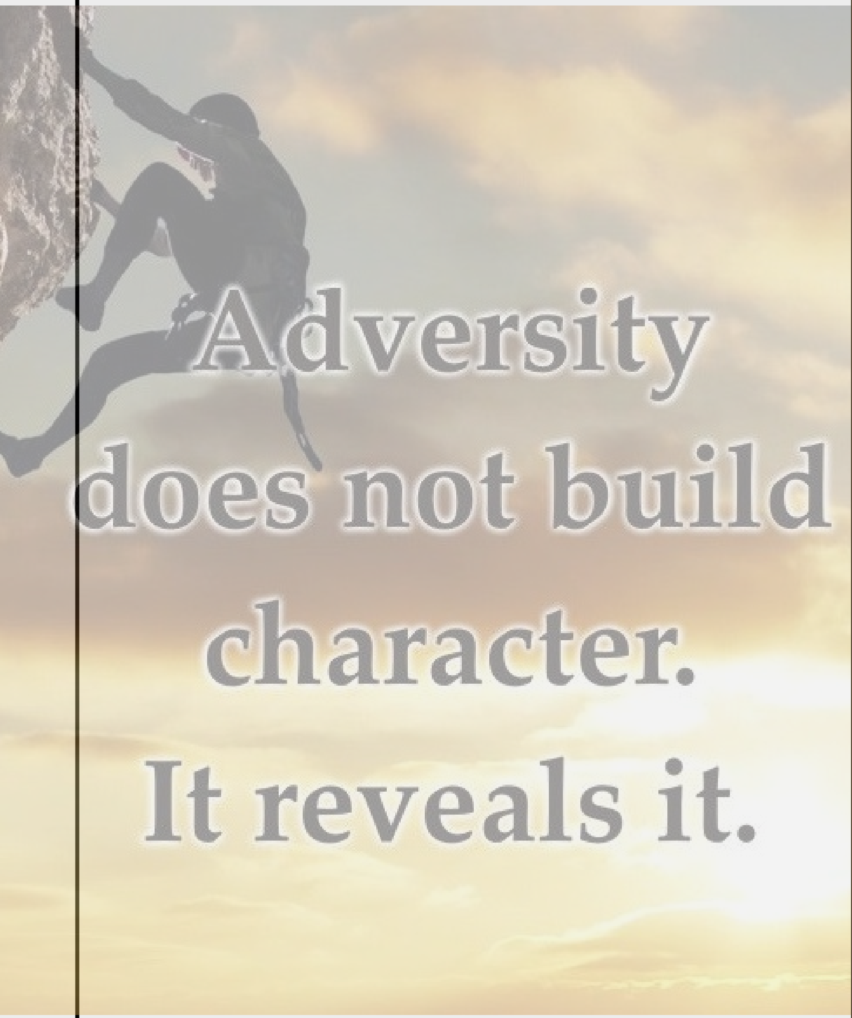
Last month, officials announced that they were restricting the import of several non-essential luxury items to reduce costs. But critics said the measures were introduced too late and would only contain the import bill by about $600 million, which is about 5 per cent of projected imports, The Independent reported.

The import of items like cars, cosmetics, mobile phones, toiletries and cigarettes were impacted by the Pakistan government's decision.

Apart from massive debt, the country is also grappling with a worsening energy crisis. Several towns and cities across Pakistan have been experiencing widespread blackouts for several hours.

Source: The Indian express.

"Move forward. Good things are up ahead."



Adversity reveals to you: your true friends

- Priya K.

Nidhi Chauhan worked with a television channel as an anchor of a dial-in music show. She was extremely popular and super successful. Her show was loved a lot by the viewers and they waited to watch it every week.

Nidhi had many friends at her workplace and they regularly enjoyed and lived it up during weekends. Life was simply great for Nidhi as she experienced both professional success and personal happiness.

Nidhi had now been working for the channel for four years. One day, the managing director of her channel called her to discuss something. When Nidhi entered his cabin, he asked her to take a seat and after a few minutes, revealed that Nidhi was now, out of the show. Nidhi was shocked and asked for the reason. She was told that the channel had decided to change the concept of the show completely and that they now required someone younger. (Nidhi was 22 years old, she had joined the channel when she was just 18) Saying thus, the M.D. closed the conversation and requested Nidhi to leave.

It took Nidhi quite some time to realize and accept that she was thrown out of her great job. She tried contacting her friends but none responded. She now understood that they were all fair-weather friends. This doubled her grief and she was clueless as to what to do.

Her mother was a wise and strong woman who knew of Nidhi's inherent strengths. She started a conversation with her one day and said, "Don't bother about what has happened, everything happens for the best, because of this incident you could understand the true nature of your friends and the television Industry, you are still the same person, you still have the same capabilities, apply for a job somewhere else and you can be successful again."

Nidhi took her mother's advice seriously and started looking elsewhere for a job. After a month, another T.V. channel offered her a job of a video jockey for a youth-based show. She accepted it and there was no looking back. She carefully chose her friends this time and slowly built her life around her new job and genuine friends.

Again, there was a smile on her face and she was happy. Indeed, adversity had revealed to her, her true friends and her mother became her best friend.

Why should an interest rate hike in the USA impact Indian stock market

- Prof. G. Mani

This is a question that will crop up in everybody's mind - Why should an interest rate hike in the USA impact the Indian stock market?

We must realize that capital knows no boundaries. It is a free flowing entity unless there are restrictions imposed by countries. In today's world almost all countries barring less than a handful of countries have capital flow restrictions (North Korea for example). Capital will flow to those destinations (countries) where it gets the highest returns.

Now let us look at the inflation scenario in the world. Inflation, especially these days, is a global phenomenon. All countries are tightening their easy liquidity policy by sucking out the surplus liquidity from the system and increasing the interest rate (RBI also did the same recently on 8th June).

When interest rates are increased, both borrowers and savers are impacted. The borrowers are impacted negatively because they have to pay a higher interest rate on their borrowings (whether it is EMI on personal loans, housing loans or corporate loans). On the other hand the savers receive a higher return on their deposits and investment in bonds. The savers are happy but the borrowers are dejected.

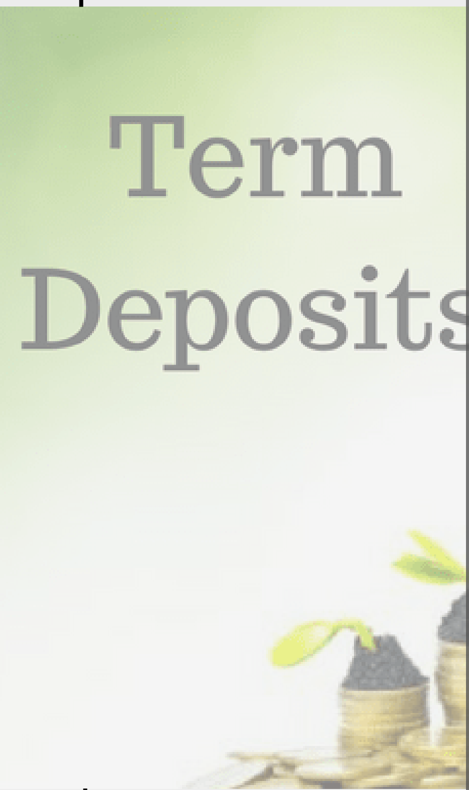
- Higher interest rates will attract the savers to the US financial markets because the banks will offer a higher interest rate on deposits. The government bonds (called the US Treasuries) will offer a better return. So, the foreign investors will pull out money from emerging markets like India and invest the funds in the US which is a safer market. This is one of the reasons why the market goes down.

- Earlier (before the hike) US investors used to borrow funds from the US banks at a lower interest rate and invest in Indian bonds whose yields are higher (historically the interest rate differential between advanced economies and emerging economies have been quite wide - if US interest rate is 2%, Indian interest rate will be around 7-8%). Now because the US rates are higher, it is no longer profitable to borrow from the US banks and invest in Indian bonds. This reduces the capital inflow into India.

- Indian corporates used to borrow in foreign currency (External commercial borrowing - ECB) to fund their infra projects because of lower foreign currency borrowing rates. Since the rates have gone up their interest payments will now be higher which will negatively impact their profitability. Higher borrowing cost least leads to higher cash outflow for companies impacting the bottomline.

- INR is depreciating continuously due to higher oil import costs and resultant inflation. So to buy 1 USD you need to pay more units on local currency (Indian Rupee). So the foreign investors are converting their rupee earnings into USD before INR depreciates further.

These are some of the reasons that contribute to the crash in the Indian stock market. Other than these, sentiment is another important factor.



Floating rate Term - Deposits

- Prof. G. Mani

Recently Yes Bank Limited came out with an advertisement regarding "Floating rate fixed deposit scheme".

Normally banks offer fixed rates of interest on fixed deposits. For example, 1 year FD at 6% pa, 2 years FD at 6.5% pa, 3 years FD at 7% pa etc. Which means the depositor will receive fixed interest rates on these deposits. If you place Rs.100,000 for 1 year, you will get Rs.6000/- as interest. For 2 years you will receive Rs.6,500/- for each year and so on. There will be no change in the rate of interest during the period for which the deposits are kept with the Bank. This is a plain vanilla product which is easily understood by all.

Now there is a twist in the tale:

Yes Bank has announced Fixed Deposits whose interest rates will be based on RBI's repo rates. So these deposits become floating rate or variable rate term deposits.

Period: 12 months - <18 months Repo rate + a spread or mark-up of 1.10% = 4.90 +1.10 = 6.00% pa

Period: 18 months - < 36 months Repo rate + a spread or mark-up of 1.60% = 4.90 +1.60 = 6.50% pa

The current Repo rate is 4.90% - announced by RBI on 8th June

The repo rate is the rate at which banks borrow money from the RBI. This repo rate (also known as policy rate) is subject to change as decided by the RBI depending on various macro economic factors. The Repo rate is chosen as the benchmark because it is the rate announced by RBI and is well recognized.

So what happens to the depositors?

Depositors who keep money in such deposits, will receive higher interest rate whenever the repo rate increases and will receive lower interest rate whenever the repo rate falls. You can easily figure out how.

This is one example of a floating rate benchmark used by banks to price their deposits. This method can also be used to price the loan products. Obviously the spread or mark-up will be higher for loans. Repo rate + 8% and so on.

Other benchmarks could be the yields on 91 day T- Bills/ 182 day T-Bills, MIBOR rates etc.

Recent steps announced by RBI to increase forex inflows.

- Prof. G. Mani

The global outlook is clouded by recession risks. Consequently, high risk aversion has gripped financial markets, producing surges of volatility, sell-offs of risk assets and large spillovers, including flights to safety and safe haven demand for the US dollar. As a result, emerging market economies (EMEs) are facing retrenchment of portfolio flows and persistent downward pressures on their currencies.

The following steps have been announced by the RBI to increase the inflow of forex.

- It has been decided to temporarily permit banks to raise fresh FCNR(B) and NRE deposits without reference to the extant regulations on interest rates, with effect from July 7, 2022. This relaxation will be available for the period up to October 31, 2022.
- Exemption from Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR) on Incremental FCNR(B) and NRE Term Deposits
- FPI Investment in Debt - (government bonds) Limit on investments in Govt Bonds has been increased /liberalized to attract more FPI inflow.
- External Commercial Borrowings (ECBs) -It has now been decided to temporarily increase the limit under the automatic route from US$ 750 million or its equivalent per financial year to US$ 1.5 billion.

Source: RBI.ORG.IN

The expansion of the acronyms:

FCNR(B) - Foreign Currency Non Resident Deposit. These are deposits that are kept by NRIs (Non Resident Indians) with Banks. These deposits are in Foreign currencies like USD, GBP, Euro, JPY. The major advantage is that the interest earned on these deposits are tax free.

EME - Emerging Market Economies - India, South Africa, Brazil, Mexico, Russia, China, Saudi Arabia

NRE - Non Resident (External) Account - This is similar to Savings Bank account but the account holder is an NRI

FPI - Foreign Portfolio Investments.

ECB - External Commercial Borrowing. Indian companies can borrow from overseas markets in foreign currencies and use the money for capital expenditure, payment of imports etc.

Placement News

Somanshu Verma (left) and Karan Sawane (right) of MMS 2020-22 Batch got placed at Mount Meru in Kampala, Uganda (East Africa).
Both specialized in Marketing.

Alumnus Speak

Priyanka Patro
(PGDM 2019-21 - Finance Specialization)

I joined Deloitte right out of campus as an Associate Analyst and then got promoted to Business Analyst and then became a Consultant. I worked at Deloitte for around 6 years in the Data Analytics domain. Worked in Data modeling, Automation and multiple Data Reporting tools. I was also involved in recruitment and hosted multiple events.

Now after a stint of 6 years I have joined the JPMorgan Chase Legal team and am currently working with one of the best people in the industry.

Faisal Khan
(MMS 2019-21 - Marketing Specialization)

My Journey from ICICI Bank to Deloitte

I started my career with ICICI Bank as a relationship Manager. I worked with ICICI Bank for a period of six months. During this period I developed interest in the field of IT and data analytics which are now the most sought-after field for the young generation. Naturally I started looking for job openings in this field. As luck would have it, I got connected with the VP of Deloitte through LinkedIn and after a few conversations, he called me over for a formal interview. In fact, I had to go through five rounds of interviews and to my pleasant and happy surprise I got selected eventually. Currently, I work with the CoRe Data Management Group as an Analyst. I am really happy that I am working with one of the Big 4.

Manali Rasam
(PGDM 2020-22 - Batch Finance Specialization)

I am Manali Rasam, of PGDM 2020-22 Batch (Finance Specialization). I got placed in OTT Infotech pte Ltd as finance executive at their AlQuoz, Dubai, UAE office.
Headquartered in Singapore, OTT InfoTech is a leading provider of online gaming solutions to operators in the global market, including software platform services, network infrastructure, cloud support, and online customer service. Our products are well known for prompt delivery andamazing customer experience around the Globe.We ensure 100% satisfaction to our clients.

Your views/comments and contributions are welcome
E-mail ID: newsletter@svims.com
The SVIMSIAN Newsletter is a free-of-cost publication for internal circulation.
The Editorial Board's decision regarding selection of articles will be final