NIVESHAK
The Finance and Investment Club

JUNE 2020

VOLUME XIII & ISSUE IX

The Company Scanner:
Franklin Templeton investments

Cover Story:
India Inc. after the lockdown-How are we getting back up?

Fingyan:
Love Me or Hate Me But You Can’t Exclude Me: COVID-19
Dear Niveshaks,

We are pleased to present the edition for the month of June, 2020. The global economy as well as Indian economy are still fighting against COVID-19. MOODY has further downgraded India’s sovereign rating from Baa2 to Baa3. Article of the month discusses in detail the impact of COVID-19 on Indian retail banking and the way forward. The article touches upon the various challenges faced, the impact on key stakeholders, focus areas and also recommends possible solutions to these issues. Fingyaan focuses on the discussion about companies using COVID-19 adjustments for window-dressing their numbers in the financial statements. The article talks in detail the impact on EBITDA, exceptional items disclosure in Statement of Profit and Loss and the possibility of this turning into a long term issue for the companies.

Cover story of the edition explains the impact of COVID-19 on the formal sectors of India and how these sectors are resuming work post the lockdown. It talks in detail about what measures the Government of India are taking to ensure that the employees who are employed in these sectors are safe post resumption of work. The section also discusses how work from home is becoming a game changer today in midst of a pandemic and how innovation and human spirit emerges as a solution.

During this period, NIF grew at 4.71% and the updated portfolio worth was Rs. 16,36,222. The top gainers of the portfolio were Asian Granito and Indiabulls Hsg whereas Bharat Forg, NOCIL and ITC were the major losers.
In the Finview section, we present the interview of Mr. Harsh Gupta who is presently the Chief Investment Officer of Ashika Group of companies. The section covers his opinions on the changes in economic structure, impact of India-China tussle, effectiveness of LTRO operations and what could have been done differently to revive the economy. Company scanner covers Franklin Templeton Investments and also touches upon the current issue of market exposure and liquidity of debt instruments.

The Classroom section covers the topics of dual currency bonds and currency swaps. The section explains the perks and risks associated with the derivatives and also highlights real life transactions involving these products. Deals in Brewery section covers the Reliance saga and the much talked about deals which Jio is entering into during the last couple of months with giants such as Facebook.

We wish you, our readers, a happy reading experience.

Stay Invested,
Team Niveshak
CONTENTS

NIVESHAK: JUNE 2020
THE MONTH THAT WAS

NIVESHAK INVESTMENT FUND

COVER STORY: INDIA IN THE WAKE OF A PANDEMIC

IMPACT OF COVID-19 ON INDIAN RETAIL BANKING AND THE WAY FORWARD

FINGYAN: LOVE ME OR HATE ME BUT YOU CAN'T EXCLUDE ME: COVID-19

DEALS IN BREWERY

FINVIEW

THE COMPANY SCANNER: FRANKLIN TEMPLETON INVESTMENTS

CLASSROOM: DUAL CURRENCY BOND AND SWAPS
**MOODY:** India's rating is at Baa3 which is the lowest rating for investment
MOODY downgraded India’s sovereign rating to Baa3 from Baa2, which means after further downgrades, India will fall into Junk Grade. That will make raising the debt costlier for govt and companies as the world now sees such debt as a riskier proposition.

**Facebook-Jio deal:** FB investment values Jio Platforms at record Rs 4.6 lakh crore
Facebook has bought a 9.99 percent stake in Mukesh Ambani's Reliance Jio for Rs 43,574 crore, making it the largest minority shareholder in Jio Platforms Limited. The investment values Jio Platforms Limited (JPL) at a record Rs 4.6 lakh crore. This will catapult JPL as the fifth largest firm, considering market capitalization of listed companies in India, its parent Reliance Industries (RIL), TCS, HDFC Bank and Hindustan Unilever (HUL)

**Trump suspends H-1B visa for rest of 2020**
US President Donald Trump extended a ban on green cards issued outside the United States until the end of the year and added many temporary work visas to the freeze. The proclamation is expected to impact a large number of

**Indian IT professionals, and several American and Indian companies issued H-1B visas by the US government for the fiscal year 2021 beginning October 1.**

**India initiates an anti-dumping duty probe against aluminum foil imports from China, three others.**
India has initiated an anti-dumping duty probe against certain kinds of aluminum foil imported from China, Indonesia, Malaysia, and Thailand. Hindalco Industries, Raviraj Foils, and Jindal India Ltd have filed the application claiming injury resulting from the alleged dumping in the form of an increased volume of dumped imports in absolute terms and related to production and consumption, price undercutting and price suppressing effect on the domestic industry.

**German payments firm Wirecard files for insolvency after revealing $2 billion accounting black hole**
Wirecard, once a high-flying tech darling in Germany, filed for insolvency proceedings after revealing 1.9 billion euros ($2.1 billion) of cash on its balance sheet had gone missing. CEO Markus Braun was arrested in Munich on charges of inflating the company’s balance sheet.
NIF PERFORMANCE EVALUATION

As on June 30, 2020

Total Investment Value: 10,00,000
Current Portfolio Value: 16,36,222
Change in Portfolio Value: 4.71%
Change in Sensex: 4.84%

Risk Measures:
Standard Deviation NIF: 34.98
Standard Deviation Sensex: 24.82
Sharpe Ratio: 2.23 (Sensex: 2.67)
Cash Remaining: 1,46,352

Comments on the Equity market and NIF’s Performance

The direction of the Indian markets was decisively positive. June was marked by aggressive lifting of the lockdown and FII flows also supported the market. FIIIs were net buyers in equities in June after 3 consecutive months of selling; boosting the markets. While negative GDP growth in the June and September quarters are already factored in, the markets are now betting on a rapid recovery post October 2020. The big news was that all the key sectors gave positive returns in the month of June 2020. Of course, the extent of returns differs. Sectors like banks, hydrocarbons and autos played a big role. The two sectors that gave the lowest returns during the month of June 2020 were FMCG and pharma.

NIF also showed a good performance with NIF growing at a steady rate of 4.71% against a market return of 4.84 % reaching to a level of Rs 16,36,222.
NIVESHAK INVESTMENT FUND

INDIVIDUAL STOCK WEIGHT AND MONTHLY PERFORMANCE

- Top Gainers for the month
  - 70.40% Asian Granito
  - 62.09% Indiabulls Hsg

- Top Losers for the month
  - -4.69% BharatForg
  - -4.50% NOCIL
  - -2.99% ITC

NIF Sectoral Weights
- Auto 40.25%
- Infrastructure 8.81%
- Chemical 11.66%
- Media 10.16%
- Financial Services 10.14%
- FMCG 5.50%
- Pharma 1.93%
- Telecommunication 1.59%
- Media 1.53%

Monthly Performance
Portfolio Weight

[Graph showing monthly performance and portfolio weight]
COVER STORY

India Inc. after the lockdown-How are we getting back up?
When life gives you lemons, make lemonade. But COVID-19 is no lemon. In fact, if there is any parallel in proverbs it should be “to bite the bullet”. In India, where economic growth had plateaued even before COVID-19, this pandemic has been the straw that broke the camel's back. The ground underneath shifted swiftly that the only logical measure was to buy time. It was vital because in India where medical space is grossly under-invested, arrangements needed to be made to handle corona-positive patients.

The lockdown that stretched a little over 2 months is expected to have thrashed GDP growth in the negative terrain with even the most optimistic estimates indicating a-4.5% GDP growth. Concerns ranging from the stand-off in the Galwan valley to extinguishing exports to unemployment loom over the economy. As reality set in, and the nefarious COVID-19 didn’t seem to subside, the million-dollar question was how to make life possible alongside corona and more importantly how to make work possible alongside corona. In this edition’s cover-story we will see the various measures India Inc. is taking to get back up and rise and shine again.

**XX COVID-19 mobile application**

As India Inc. went back online, the first order of business was to ensure safety from Corona. While the central government ushered in the idea of a mandatory self-declaration on health and contacts through Aarogya Setu app, employers armed themselves with in-house apps that're modelled on the same idea. Among employers that have launched such apps are Maruti Suzuki, Reliance Industries, Capgemini, HUL, ITC, Cipla, and HCL Tech. Even as Aarogya Setu app remains mandatory, employers are going a step further to ensure safety of employees. Hindustan Unilever accomplished successful launch of “HUL COVID-19 Preparedness” app within 3 days of initiating work from home. At Maruti Suzuki, more than 34000 employees are using Wellness Mitra app.

Maintain some social distance please!

No, it doesn’t mean the author is an introvert. As re-opening the economy in the face of a formidable medical crisis posed a huge risk and it’s thought to be in everybody’s best interest to wear a mask and maintain at least a distance of 6 feet. No business is built to withstand zero revenue, so no matter how
Take your office home!
Work from home or WFH as the saviour of many service-oriented industries goes now kept some of the economy going even when everything outside had come to a standstill. With not many cafeterias serving, Webex and Zoom became the new hot places in town. While creating a professional environment akin to office even with the right technology seemed like a sticky wicket at the start, as we warmed up to the concept, benefits like near-zero travel time gave productivity a shot in the arm. If you ask an MBA intern now, he will use WFH and internship experience interchangeably. While new to many, the concept has been around for a long time. The industries where operations took the least hit are inarguably the ones that embraced this mode early on in the lockdown. Other than the golden goose of the economy, IT, financial services industry players such as brokerage companies are classic examples.
The infallible human innovation and invincible human spirit are perennial dark horses!
FYI, a health-tech community product concluded from the results of an employee survey that 93% dreaded returning to office but “In the midst of death life persists, in the midst of untruth truth persists, in the midst of darkness light persists” - Mahatma Gandhi. So, 82% agreed to participate in prophylactic measures and resume work. Employees know the unfolding situation will bring changes and are cognizant of what it could be. For employers, the post-pandemic world offers enormous opportunities to rethink, innovate and ride a fresh wave of growth that’s impending after the pandemic. There have been crises in the past and there will be many in the future but as Jack Nicholson famously said “The wheels on that bus go round and round”. Experts will say that this is a crisis like never seen before, or globally spread supply chains and integrated fortunes will not make resurrection easy and even as they may be correct in their own right but they would be discounting the strength of human motivation. The world has withstood far more destructive events otherwise called World wars. But when all is said and done the only normal is innovation, growth and betterment.
Impact of COVID-19 on Indian Retail Banking and the way forward

-Soujanya Samanta, IIM Calcutta

In the pre-covid scenario, worldwide the financial institutions were reeling under regulatory and competitive pressure, stressed interest rate regime and changing customer expectations. The current COVID-19 pandemic has posed serious threat in addition to those factors. Disruption of business operation, hinderance in the supply chain, loss of jobs and pay-cuts of individual has posed as a serious threat to the retail operation of the banks and hence it is very much needed to focus on the short, medium and long-term strategy for the future.

Major Challenges faced by the banks

1. **Credit Risk assessment** - Risk drivers specifically related to the COVID outbreak are not currently captured by credit-ratings systems. The Reserve Bank of India (RBI) has extended the moratorium period of loans by three months to August 31, 2020. This in turns negatively affects the banks as they are going to provide interest free loans without any revenue. Thus, there is a cost associated with the loans for the bank without any revenue input. Moreover, since people don’t have to pay back the loan or the interest on loan for the next three months, their spending can increase which in turn might lead to increased NPAs on the retail book of the banks. Recent times has also faced a downfall in credit growth for

2. **Liquidity Risk** - Given the situation of the lock down in the country, the defaults are bound to increase because of disruption of operation and lack of demand which will impact the cashflow. An increase in defaults will lead to issues in liquidity and capital adequacy.

---

**Fig. - Market capitalization trends of the top 90 global banks, by event (Source – Accenture Report)**
However, it is important for banks to analyze the impact on the Net Demand and Time Liabilities (NDTL) computations as well as the capital requirements.

3. Retail Loan Management - Retail loans’ share grew from ~19% as on fiscal 2015 to ~28% as on fiscal 2020. Retail credit was majorly driven by housing loans, vehicle loans and other personal loans. However, current pandemic, Covid-19, has aggravated real estate industry as new launches have been put at bay, site visits and construction activities have come to a halt given nationwide lockdowns and labor migration. Significant de-growth in other underlying assets such as vehicles and consumer durables would significantly affect financing in that space.

4. Customer Service and Advice Provision – The lockdown situation will force the customers to use apps and online banking to manage their financial life. But the elderly people who are not tech-savvy are bound to face problem in this situation. Hence, banks should educate and support their customers to facilitate the process. On the other hand, for bank also the contact center will be much busier now than ever to provide advice to its customer and hence proper combination of man-power and IVR needs to be employed.

### Impact on key stakeholders

<table>
<thead>
<tr>
<th>Stakeholders</th>
<th>Short-term disruption</th>
<th>Medium-term disruption</th>
<th>Long-term disruption</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individuals/retail customers</td>
<td>• Difficulty in accessing branches for routine operations</td>
<td>• Rising need and preference for digital transactions</td>
<td>• Loss of trust in structured savings instruments (e.g., MFs and ULPs)</td>
</tr>
<tr>
<td></td>
<td>• Default in loan payments</td>
<td>• Growing preference for health and life insurance policies</td>
<td>• Shift in preference for big banks and asset-backed instruments (e.g., gold)</td>
</tr>
<tr>
<td>SME/corporate customers</td>
<td>• Scaling down of non-essential operations</td>
<td>Increased loan defaults due to reduced revenue and margins</td>
<td>• Declaration of insolvency by small/non-digital players</td>
</tr>
<tr>
<td></td>
<td>• Significant reduction in domestic and cross-border trade</td>
<td></td>
<td>• Rampant lay-offs in the private sector because of decreased margins</td>
</tr>
<tr>
<td>Shareholders and investors</td>
<td>Temporary correction in valuation of FIs, with an expected reduction in returns</td>
<td>Accumulation of surplus capital due to limited deployment opportunities</td>
<td>Push of shareholders to invest capital in inorganic growth opportunities</td>
</tr>
<tr>
<td>Employees</td>
<td>Inability to access data/infrastructure, leading to reduced serviceability</td>
<td>Increasing preference for distributed workforce/shared services</td>
<td>Need to build new skills to adapt to a changing business environment</td>
</tr>
</tbody>
</table>

### Key focus areas

1. Structural changes in the continuity of business process – Majority of Indians prefer banking channels for their banking needs. However, to cater to the current situation of lockdown and social distancing, new operating procedures need to be adopted for both customers and employees. All the customer touchpoints should be handled properly with care, for ex- encouraging and educating customers about online internet banking which can reduce the footfall in branches or ATM, providing tailor-made interactive voice response (IVR) for solving customer query etc.

2. Optimization of Cost – Since the topline of the banks are already constrained in this COVID situation, to maintain a healthy bottom-line it is...
necessary to be lean and shed off bad costs. Reviewing the marketing campaign and focusing only on the promotion of most appealing products, Monitoring the system usage and removing underutilized assets, automating back-office duties etc. are some of the ways in which banks may focus on cost optimization.

3. Digitization of services – Although digitization of services in banks came into picture to compete with tech-savvy new age player, however, digital is going to be one of the major factors of bank’s recovery in post-COVID scenario. Provision of services like online account opening, issuance of cards etc. should be available. Along with that, proper infrastructure should be made for work-from-home model for safe operation of employees. Also, banks should partner up with the Fintech’s and focus on digital payment especially in the contactless categories.

4. Productivity of employees – The current crisis is far different from all other crises that has happened earlier, as in current case the employees are forced to work remotely. To maintain required level of responsibility and accountability the key performing indicators (KPI) and key performing areas (KPA) should be clearly defined. Also training and learning modules needs to be designed not only for helping employee getting accustomed to technical environment and digital tools but also for upskilling of employees.

Recommendations
To save the banks from this dire situation, both government and RBI has adopted suitable measures like announcement of relief packages, considering bail-out packages of corporates, reduction in the repo rate, infusion of liquidity in the market etc. However, banks also should customize their management framework for catering this situation. Few recommendations to the banks to tackle current situation are listed below –
1. Credit Management – Increased loss of income (both individual and commercial), Dip in economic activities, increase in loan defaults has posed a severe threat of credit risk. The banks’ credit management team should continuously upgrade the credit-risk monitoring tool by factoring in various macro and micro-economic variables along with external variables like extension of moratorium etc. To stay competitive towards the customers, banks must digitize the demand management system for refinancing operations and deploy credit forbearance and modification programs to the targeted customers including fee waivers, deferred payments, loan and mortgage assistance etc.

2. Adjustment of operating model – Being an essential service, banks needs to keep their branches open. Hence it is important to evaluate the critical branches based on footfall, underlying asset etc. and implement shift duties to the employees on those particular branches. Along with that, banks may choose to define a particular hour in a day to serve the branches which are in critical zones of containment. Sales and promotion strategies needs to be re-negotiated and minimum number of employees should be deployed for the same. Digital products should be developed which can serve end to end online and cross-channel sales. The non-value-added activities in this current moment need to be identified after deep introspection and brainstorming and they should be either delayed or outsourced.

4. Protection against fraud – As banks are shifting more towards digital transaction there has been a simultaneous surge in frauds. In fact, security firms has reported nearly 700% increase in phishing attacks. To protect themselves against fraud and cyber treats, banks should recalibrate their current risk tools and ramp up real-time risk monitoring systems by making use of business intelligence tools.
These are one-off events that either cause a great expense or a big bout of revenue. For example, suppose a company sold off some of its machinery because it did not use it anymore. This led to an income of INR 1 crore – a big sum for a single transaction. This could easily boost the company’s profits in that particular quarter/year. However, this is not likely to recur again. So, it is counted as an ‘Exceptional Item’.

So why do exception items matter?

They are important for calculating the actual growth of the business without distortions. Exceptional income or expenses are not expected to recur on a year to year basis; hence, they might temporarily inflate or deflate the earnings of a company. Considering that such items are non-recurring in nature and will not repeat in the long term, they need to be excluded from the analysis to estimate long term earnings growth rate of the company.

Let us consider both the stories in tandem. Companies have complained that due to Covid-19, their earnings have been adversely affected, either by loss of income or no corresponding change / increase in expenses (primarily due to fire-fighting the situation with sanitisation and safety measures). Companies argue that such decline in earnings is temporary and will fade out as and when the situation becomes normal.

Make no mistake! These exceptional
items are still part of the financial statements - companies are required to adjust their profitability to account for these and provide details of such items in the notes to the accounts. Then why is there hue and cry over such a practice?

Let us take an example of HUL and analyse its financial statements for FY 2019-20.

As can be seen from the snippet above, exceptional items do feature in the profit and loss statement of the company and profitability is accordingly adjusted. Then what is the problem?

Let us look at another snippet*

*Slight discrepancy is noted in Sales because the Sales figure in the investor presentation consists of only the sales from the products, whereas the Sales figure in the annual report consists of other operational income of INR 512 crores as well.

Did you notice something? The company did not take into account the exceptional items in its EBITDA figures. Additionally, even PAT, which is supposed to account for exceptional items is reported before exceptional items (‘bei’), albeit alongside net profit. And, the investor presentation, which in probable circumstances is what investors will look at, reports profit before exceptional items and inflates the figure**.

**We are not criticising HUL’s strategy to report financials without considering exceptional items. Looking at its notes to the accounts, the exceptional items seem legitimate to us – these are from either disposal of an asset or due to restructuring. We will now take a more critical look at some of the more questionable practices of a few other companies now.
As per the aforementioned article by The Economic Times, some companies want to include loss of income from the operational business and incurrence of additional cost on account of increased safety as part of exceptional items. And it does not stop there – due to the fact that they couldn’t fire the employees due to government regulations, they couldn’t lower their fixed costs and had to take additional provisions due to liquidity issues with the customers, these companies are proposing to charge the expense from these items under exceptional items because in their view, they wouldn’t have incurred these under normal scenario. All these items, which should have flown through operational income, would now reflect as non-operational elements under the financial statements.

And that is the beauty of interpretation and presentation. There are various ways to measure the profitability of a company. Companies can comply with the regulations and keep net profit (GAAP complied) unchanged, but it can shore up the profitability by showing higher than normal operational income (EBITDA).

However, there is one more problem with EBITDA. Rules around using terms such as EBITDA are not regulated by professional accounting bodies and are referred to as non-GAAP measures. Companies are hence free to include / exclude certain items of income and expenditure based on their discretion and interpretation, fuelling subjectivity and more importantly (perhaps disturbingly) creativity. If net profit is plain milk, EBITDA (and adjusted EBITDA) is lip-smacking Nutella Blueberry Smoothie – tasty but unhealthy!

But you may ask, why all the fuss around EBITDA. The problem lies in the fact that the EBITDA serves as the metric in valuing most of the companies for investment and transaction analysis. Equity research and valuation professionals value the securities primarily using EBITDA. Ask any investment banker and he will tell how EBITDA can make or break a deal (throw in some expected synergies and cost efficiencies from an M&A transaction and you have even more disputable figure of adjusted EBITDA – in the coming weeks, we will discuss this more in detail). All the major bank covenants are based on EBITDA. There is indeed huge pressure on companies to shore up their operational financials such that they can be considered positively by the markets or meet its covenants.

TVS Motor Company Limited reported Covid-19 related expenses of INR 32.3 crores, which comprise 26.5% of the profit before exceptional items, in exceptional items for the FY 2019-20.

CEAT Limited registered Covid-19 related expenses of INR 29.8 crores, which comprise 8.9% of the profit
before exceptional items, in exceptional items for the FY 2019-20. These amounts might seem low, but they are for FY 2019-20, and the impact was felt for the last 15 days of the financial year. It is not tough to ascertain what will be the impact of 2 months of lockdown in the April to June 2020 quarter.

We repeat - companies intend to carry out these adjustments only till the time situation becomes normal. The financial statement would contain an aberration for 1 or 2 or maximum 3 quarters post which status quo will ensue. Companies expect pain to be short term in nature and things to magically turn around in 2 quarters. After all, an item would be classified as an exceptional one only if it is expected to be non-recurring.

But what if whole assumption of short-termism of pain is wrong? What if the situation does not return to normal in 2 quarters? What if pain lingers and the economy / industry / company continues to suffer? With the fear of second wave of Covid-19 creeping in around the world (and rather the first wave itself not flattening in India), such concerns have become distinct possibilities. Some industries have been damaged considerably and chances of a 'V shaped' recovery have been ruled out.

Sure, there has been some pick-up in demand in some of the industries, but such pick up is mostly attributable to the fulfilment of pent-up demand as the economy emerged out of the extended lockdown.

The Ken, in its 53rd edition of the BFO, brilliantly summarised the impact of current pandemic: The supply-side shock has trickled down into the demand side as well. The work-from-home movement is no longer just lip service, so why would one buy formals or even cars? There are job losses and furloughs galore, while whole industries—like hospitality and aviation—face an existential crisis. This has a ripple effect on other sectors as well.

The result is that the disruption to the supply side has transformed into a collapse of demand, three economists argue in a recent paper. The authors present a theory of Keynesian supply shocks: supply shocks that trigger changes in aggregate demand larger than the shocks themselves.

Let us understand this further. We all know that GDP comprises of consumption expenditure, investment, government purchases and net exports. The economy works in a cycle, in which different components feed each other. Investments lead to employment of capital and labour, such capital and labour are paid their share of interest and wages, respectively and depending on the level of marginal propensity to consume, such wages lead to consumption that in turn lead to demand for more products and that demand is met by increased investment in capital and labour and
the cycle continues. This is what we call multiplier effect, which effectively means increase in one of the components of the GDP by 1x leads to more than 1x impact on the GDP. In the real world, the interaction of different variables is more complicated, but you get the basic idea.

What happens when one of the components stops functioning? The cycle breaks off. The workers at the restaurant or travel portal are laid off. They do not earn any income. Their consumption goes down that in turn affects investments by the other companies, say an apparel store or a hotel or a B2B online marketplace. Lower investments in these sectors further cascades into lower wages leading to lower consumption and so on. The eventual downward effect on aggregate demand is much larger and more persistent, leading to long-lasting contraction in the economy or GDP. This is what India is facing right now.

Let us take another example. Following are the most recent estimates by leading rating agencies for the GDP growth rate in FY 2020-21 and FY 2021-20

<table>
<thead>
<tr>
<th>Agency</th>
<th>FY 2020-21</th>
<th>FY 2021-22</th>
<th>CAGR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fitch</td>
<td>-5.0%</td>
<td>9.0%</td>
<td>3.6%</td>
</tr>
<tr>
<td>Moody's</td>
<td>-4.0%</td>
<td>8.7%</td>
<td>4.4%</td>
</tr>
<tr>
<td>S&amp;P</td>
<td>-5.0%</td>
<td>8.5%</td>
<td>3.1%</td>
</tr>
</tbody>
</table>

Indian GDP grew at the rate of 4.2% in FY 2019 - 20. Although the January - March FY 2020 GDP growth rate of 3.1% reflects the impact of Covid-19, as per the two rating agencies, India will not reach pre Covid - 19 growth rate till at least FY 2022. If the economy is not able to get back on the pre Covid-19 growth rate for at least two years, can its businesses expect to return to the normal scenario in 2 to 3 quarters. If such an abnormal scenario prevails, we wonder till when can businesses reflect loss of operational income or incurrence of additional expenditure, which will eventually become recurring in nature, as exceptional items.
The Reliance saga is definitely not ending anytime soon. From May to June, it has been carried successfully onto another month.

On June 5, Mubadala, the Abu-Dhabi based sovereign investor announced an equity infusion of INR 9903 crore in Reliance Jio. This was for a 1.85% stake in the country’s largest telecom provider.

Not to our surprise, on June 13, TPG, an American equity firm bought a 0.93% stake in Jio for a total of INR 4546 crore. On the same day, the 10th deal was struck with L Catterton, one of the world’s largest consumer focused private equity firms for INR 1894.5 crore for a 0.39% equity stake in Jio.

Reliance aims at becoming Debt free ahead of their March’21 target. The company’s most no. of investment has come from Reliance Jio which is striving towards making Dream Digital India a reality. All the deals collectively make the total investment received by Reliance Jio a whooping INR 104326 crore. Jio has now an equity value of INR 4.91 lakh crore.

<table>
<thead>
<tr>
<th>Date</th>
<th>Investor</th>
<th>Investment (₹ cr)</th>
<th>Stake (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Apr 22</td>
<td>Facebook</td>
<td>43,574</td>
<td>9.99</td>
</tr>
<tr>
<td>May 4</td>
<td>Silver Lake</td>
<td>5,656</td>
<td>1.15</td>
</tr>
<tr>
<td>May 8</td>
<td>Vista Equity Partners</td>
<td>11,367</td>
<td>2.32</td>
</tr>
<tr>
<td>May 17</td>
<td>General Atlantic</td>
<td>6,598</td>
<td>1.34</td>
</tr>
<tr>
<td>May 22</td>
<td>KKR</td>
<td>11,367</td>
<td>2.32</td>
</tr>
<tr>
<td>Jun 5</td>
<td>Silver Lake &amp; co-investors</td>
<td>4,547</td>
<td>0.93</td>
</tr>
<tr>
<td></td>
<td>Mubadala Investment Co</td>
<td>9,094</td>
<td>1.85</td>
</tr>
<tr>
<td>Jun 7</td>
<td>Abu Dhabi Investment Authority</td>
<td>5,684</td>
<td>1.16</td>
</tr>
<tr>
<td>Jun 13</td>
<td>TPG</td>
<td>4,547</td>
<td>0.93</td>
</tr>
<tr>
<td></td>
<td>L Catterton</td>
<td>1,894</td>
<td>0.39</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td></td>
<td><strong>1,04,328</strong></td>
<td><strong>22.38</strong></td>
</tr>
</tbody>
</table>
There has been an infusion of 1.08 lakh crore in Jio from RIL. The company aims to make Jio to India as Alibaba is to China and Google is to US. Reliance Jio alone has spurred internet penetration in the past few years in India.

Thus in the coming years, if you find yourself owning more than 50% of your belongings from Reliance, well that shouldn’t come as a surprise.
1. What sort of fundamental changes in the economic structure apart from the ones already initiated, do you think will be brought to or should be brought to fruition to deal and cope with the pangs of COVID-19?

Digitalisation has accelerated across societies and economies, and that is a big positive for India. Why? Because of the massive labour arbitrage opportunities that exist between Indian and Western salaries. Our per capita income is ~30x less than America’s, even after adjusting for cost of living it is ~8x. Even for mid-level management positions, it is ~4x. Now imagine a world in which mixed reality (AR/VR) and 5G are to be rolled out in the coming years, and your annoying video chats will be much smoother – could even be holograms as shown in SciFi movies! Combine that with WFH (work from home) which has become mainstream, and remember everybody was surprised how efficient employees were once they didn’t have to travel in heavy traffic five times a week up and down!

Of course, in-person interaction will always be needed but if someone can work for a San Francisco company in Austin why not in Shillong? Even if you throw in two round trip tickets to the US with weeklong stays each for intra-company networking and socialising, the savings are huge. Of course, that is the basis of Global In-House Centres aka from mid and back offices to cutting edge R&D centres of...
MNCs in Bengaluru, Pune, Noida, Gurugram and Hyderabad. This pandemic along with broader tech changes will just increase the pace of change. At a policy level, we need to ensure fast and affordable internet for everyone and ensure that there is no digital divide. It seems we are on that path, but we need to stay focused. Also, we need to make sure we leverage India’s weight to make sure digital services trade does not face too many roadblocks.

2. How do you see the India-China tussle playing out for the Indian economy in general and start-up culture in specific?

While the previous answer focused on services, let this answer focus more on manufacturing and startups. On manufacturing, the Chinese with their mercantilist policies and impressive focus on infrastructure built up world-beating economies of scale over the last generation, but this is now facing serious headwinds. America and India, with whom the Chinese have the highest bilateral surpluses, are in no mood to underwrite the aggressive expansionism of the Chinese Communist Party (CCP). Protectionism is rising globally just as economies face excess capacity across sectors. The important thing is for democracies to come together and make sure in their aim to contain China, they do not become protectionist against each other as well.

For startups, the simple point is no one trusts the CCP when they say that their private internet companies are private, and that data security and privacy will be respected. I am not saying other countries are completely clean on this metric but the CCP’s record seems to be significantly more worrying. In any case, they have played digital mercantilism perfectly as well – they built the Great Internet Wall of China disallowing other countries’ companies such as Google or Facebook but want to export their own products such as TikTok. That will no longer be acceptable. This is an excellent sign for Indian entrepreneurs – there may be some funding issues in the short term, but they have a higher chance of succeeding now - in startups, services or manufacturing – than they did earlier.

3. What is your opinion on LTRO with respect to its objective of stabilizing markets?

The Reserve Bank of India (RBI) conducts Long Term Repo Operations (LTRO) or Targeted LTROs (TLTROs) from time to time, for example right now. The idea is to nudge banks to invest in targeted securities (such as mortgage or commercial or even sovereign paper) whereby their funding costs can be locked down for a period instead of having constant rollover risk. I do not want to get too technical here, but this intervention along with OMOs (Open Market Operations) and unsterilised foreign exchange reserve purchases
term supply shocks. In any case for transmission to be better we do need rationalisation of rates as mentioned above so that loan rates can also fall. Also, we need to make sure that we enter global bond indices so that with Exchange Traded Fund (ETF) flows we get more permanent and stable foreign capital for our local currency sovereign bonds. The government is working on this – we just need to hasten things perhaps.

On the fiscal side while our response has been relatively subdued so far but then again there is no point for a massive response when we are still in a partial lockdown phase though that should be less of an issue going forward. It was good to focus on the safety net for the poor first and then small businesses. Maybe large businesses still do not need help but we need to look at our financial system. While the introduction of investment and real estate listed trusts (INVITs, REITs) would be good for long term development financing without asset liability mismatches (ALM) but we have to clean our non-banking financial company (NBFC) space and banks, especially public sector banks (PSBs). The Insolvency and Bankruptcy Code (IBC), a landmark reform, had to be temporarily suspended given the scale of the crisis. I am afraid we have no choice now but to go for more bank recapitalisation and even a bad bank idea. The only way to reduce moral hazard going forward is to work towards better PSB governance and incentives, and have some creative

4. With monetary and fiscal policies being rolled out, how do you view the synergies between them in terms of recovery and what according to you could have been done differently?

I think post-Covid our response has been broadly OK. The lockdown could have been ended a few weeks earlier but that is easy to say with hindsight. Our monetary policy can be more aggressive but that is more difficult to do instantly because headline inflation numbers are skewed due to food prices and lockdown related short
changes in our tax policy with respect to investments and interest.

5. Having graduated from an Ivy League school (Dartmouth) at the time of financial crisis and thus having navigated through the uncertainties creating disparity between expectation and reality in terms of scope of employment, what message would you like to give to IIM Shillong’s class of 2020 and 2021?

You have saved the best question for the last. In my case, it was not a big issue as I had decided to come back to India after graduation and try something here. I started businesses and nonprofits, I wrote books, I switched jobs, I worked hard, I explored the world and myself. In fact, I had finished my 4 year course at Dartmouth in 2.5 years as I wanted to make up for lost time. I had dropped out of IIT Delhi in 2005 without completing the first semester after I was reasonably sure I would get a scholarship in the United States – I wanted to study economics and not engineering.

I honestly think there may be no better time than from the next few months or 2021 to be an entrepreneur when there is so much despair all around. Or become an intrapreneur within an existing organisation and starting a new line of business. Why? Because I am very bullish on India over the coming decade due to her demographics and policy/macro context along with the tech factors some of which I mentioned above. India will have the world’s largest working age population in a decade or so, and today’s kids will be tomorrow’s digital native youngsters and then 20-25 year ones in 2030, across the gender and rural-urban divides. They may not all be as well educated as you but they will have their legs on the first rung of the ladder, and that is what matters. Jobs are not created, marketable skills are created and then jobs follow them. So take a risk! You may do it straight away or you may do it after working for some time in a corporate environment. But be brave, be kind, be lucky, be collaborative and in any case never give up. As they say tough times do not last but tough people do.
Franklin Templeton Investments created a spur in the Indian debt market after it announced in late April this year that it would close six of its high-risk high-return debt schemes in India with immediate effect. The decision is likely to lock in about ₹ 30,800 worth investor’s money. The investors won’t be able to withdraw money, and they would have to wait for as long as the scheme’s duration. So let us know about the much-discussed company itself- **Franklin Templeton Investments**.

The company was founded in 1947 by Rupert H. Johnson Sr., and currently is a leading asset management company for institutional, retail, and high-net-worth clients.

Throughout the years, the company acquired a number of companies, and few instances are Winfield & Company, a California-based investment firm in 1973, Templeton, Galbraith & Hansberger Ltd. in 1992, leading to the common name Franklin Templeton. Heine Securities Corporation merged in November 1996 and Bissett Funds in October 2000. Very recently, it acquired Legg Mason at the beginning of 2020. This acquisition has made Franklin Templeton as one of the largest global investment firms with a combined $1.5 trillion in assets under management (AUM) as on 31st January 2020.

In 1986, the company’s stock commenced trading on the New York Stock Exchange.

The stock is currently trading at $20.60 as on 24th July 2020, with a dividend yield of 5.24%. The current market capitalization of the company is $10.20 Billion, and a P/E ratio of 10.56.

After the winding up of 6 debt schemes in India, the company has been under the radar of criticism.
The banks in recent times have been conservative in their approach towards increasing exposure, and with a surplus, they would’ve preferred lending to a robust AMC rather than buying corporate paper. But if the AMCs are still short of liquidity and holding poor-grade paper, their own decisions are to be held responsible. On closer scrutiny, increasing quantum of low-grade papers in the portfolio are likely to blame. This gradual deterioration in the quality of papers is what started in the late 2015 and eventually led to the build of monumental Non Performing Assets in the banking system.

While it is true that the ratings by the credit agencies share a fair share of blame, it is also true that fund managers had too had the onus of investing in good quality papers. The incessant pursuing of higher yield while compromising on the quality somewhat led to this crisis. Not all the assets need to have a AAA rating, the confidence to liquidate the paper in time of crisis should be at least there. 

The move by RBI to open a special credit window for the banks to lend mutual funds has brought some calm to the money and stock markets, but seems like this issue could lead to bigger things unfolding in the future.
Dual Currency Bonds are a form of debt instrument. Typically bondholders receive interest payments over the entire maturity period. At maturity, issuer of the bond repays the principal or the face value of the bond. In a dual currency bond the currency for interest payments and principle repayment are different.

Interest payments are usually made in the currency in which the bond was issued. Exchange rates for principle repayment is fixed by the issuer and is mentioned in the indentures. In some cases issuer may use spot exchange rates for coupon and principle payment. Issuers of such bonds are generally multinational companies.

Bondholders of dual currency bonds receive higher coupon rates because they are exposed to interest rate risks. If the currency in which principle payment is made appreciates, then bondholder makes money. If it depreciates, they lose money.

These securities can be hedged by combining them with **Dual Currency Swaps**.

Swaps are actually derivative products. Here a prior agreement is made on the currency in which interest and principle components will be paid and the exchange rate that will be used to convert. Since there is a flexibility associated with the swap, it costs a premium.

**Types of Duel Currency Bonds:-**
- Traditional – Interest payments are done in domestic currency of investor and principle in bond issuer’s domestic currency
- Reverse – Interest payments are done in issuer’s domestic currency and principal in issuer’s domestic currency

**Some Transactions**

In 2014 Bharti Airtel raised $2 billion through dual currency bonds. At that time it was the first dual currency debt issue by an Indian firm.

Recently in January 2020, Indonesian government issued two dual currency bonds worth $1.5 billion.
Fin.
ANNOUNCEMENTS

ALL ARE INVITED

Team Niveshak invites articles from participants from all B-Schools across India. We are looking for original articles related to finance and economics. Participants can also contribute puzzles and jokes related to finance and economics. References should be cited wherever necessary. The best article will be featured as ”Article Of The Month” and would be awarded cash prize of Rs. 2000/- along with a certificate.

Instructions:
• Send in your articles before 15TH August, 2020 to niveshak.iims@gmail.com
• The subject line of the mail must be ”Article For Niveshak_<Title>”
• Do mention your name and institute name along with the article
• Please ensure that the article has a word count between 1500—2000
• Format: Microsoft Word; Font: Times New Roman; Size: 12; Line Spacing: 1.5
• Please **DO NOT** send PDF Files and stick to the format
• Number of authors is limited to 2 for each article
• Mention your mail id/blog if you want readers to contact you for further discussion
• Also certain entries which could not make the cut to the magazine will get featured on our website.

SUBSCRIBE

Get your own copy delivered to your inbox
Drop a mail at niveshak.iims@gmail.com

Thanks,
Team Niveshak